LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
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INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Fiduciary Net Assets – Pension Trust Funds of the Public Employees' Retirement Board, a component unit of the state of Montana, as of June 30, 2007, and the related Statement of Changes in Fiduciary Net Assets – Pension Trust Funds for the year ended June 30, 2007. These financial statements are the responsibility of the Public Employees' Retirement Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Public Employees' Retirement Board as of June 30, 2007, and the changes in fiduciary net assets for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis, the Schedule of Funding Progress, and the Schedule of Employer Contributions & Other Contributing Entities are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary

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information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Public Employees' Retirement Board. The Schedules of Administrative Expenses, Investment Expenses, and Consultants; the Detail of Fiduciary Net Assets (PERS-DBRP and PERS-DBEd) and the Detail of Fiduciary Net Assets (PERS-DCRP, PERS-DCEd and PERS-DC Disability) as of June 30, 2007; and the related Detail of Changes in Fiduciary Net Assets (PERS-DBRP and PERS-DBEd) and the Detail of Changes in Fiduciary Net Assets (PERS-DCRP, PERS-DCEd and PERS-DC Disability) for the fiscal year then ended are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Introductory Section, Investment Section, Actuarial Section, and Statistical Section listed in the foregoing table of contents are presented for the purpose of additional analysis and are not a required part of the financial statements. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Respectfully submitted,

/s/ *James Gillett*

James Gillett, CPA
Deputy Legislative Auditor

December 10, 2007

Public Employees' Retirement Board

A Component Unit of the State of Montana

Management's Discussion and Analysis

This section presents management's discussion and analysis of the Montana Public Employees' Retirement Board's (PERB) financial presentation and performance of the plans administered by the PERB for the year ending June 30, 2007. It is presented as a narrative overview and analysis and should be read in conjunction with the Letter of Transmittal included in the Introductory Section, the financial statements and other information which are presented in the Financial Section of this Component Unit Financial Report.

Financial Highlights

- *The PERB's combined total net assets of the defined benefit plans increased by $719.7 million or16.9 percent in fiscal year 2007. The increase was primarily due to the investment income in each of the plans.*

- *The PERB's defined contribution plans combined total net assets increased by $50.9 million or 18.7 percent in fiscal year 2007. The total increase in Net Assets was due to investment income and contributions in both the DCRP and the 457 plan.*

- *Revenues (additions to plan net assets) for the PERB's defined benefit plans for fiscal year 2007 was $950.1 million, which includes member and employer contributions of $189.9 million and net investment income of $760.2 million.*

- *Revenues (additions to plan net assets) for the PERB's defined contribution plans for fiscal year 2007 was $69.7 million, which includes member and employer contributions of $27.2 million and net investment income of $42.5 million.*

- *Expenses (deductions to plan net assets) for the PERB's defined benefit plans increased from $214.0 million in fiscal year 2006 to $230.4 million in fiscal year 2007 or about 7.7 percent. The increase in 2007 is primarily due to an increase in total benefit recipients and plan expenses.*

- *Expenses (deductions to plan net assets) for the PERB's defined contribution plans increased from $14.5 million in fiscal year 2006 to $18.9 million in fiscal year 2007 or about 30.3 percent. The increase in expenses is primarily due to an increase in distributions.*

- *The PERB's defined benefit plans' funding objectives are to meet long-term benefit obligations. As of June 30, 2007, the date of the latest actuarial valuation, all defined benefit plans are able to pay off any Unfunded Actuarial Liability within 30 years. As a whole the plans were actuarially funded at an average of 91 percent. It is important to understand this measure reflects the actuarial value of the defined benefit plans' net assets, which is currently less than the actual fair value published in the financial statements. Investment earnings are critical to the defined benefit plans and the market decline and associated investment losses in fiscal years 2001 and 2002 had major impacts on the plans. In 2005 the last part of the 2002 investments loss was recognized as part of our regular 4-year smoothing program.*

- *The PERB introduced legislation to correct the funding problem in the 2005 Legislative Session; however, no legislation was passed. In 2007 several entities including the PERB introduced legislation to resolve the retirement funding issues that were prevalent in the past few years. The 2007 Legislature passed House Bill 131, which will help with future funding of the PERS, GWPORS and SRS.*

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the PERB's financial reporting which is comprised of the following components:

(1) Financial Statements
(2) Notes to the Financial Statements
(3) Required Supplementary Information

Collectively, this information presents the combined net assets held in trust for pension benefits for each of the plans administered by the PERB as of June 30, 2007. This financial information also summarizes the combined changes in net assets held in trust for pension benefits for the year then ended. The information in each of these components is briefly summarized as follows:

(1) Financial Statements for the fiscal year ended June 30, 2007, are presented for the fiduciary funds administered by the PERB. Fiduciary funds are used to account for resources held for the benefit of parties outside of the PERB. The fiduciary funds are held for participants in eight defined benefit plans and two defined contribution plans.

- The Statement of Fiduciary Net Assets is presented for the pension trust funds at June 30, 2007. These financial statements reflect the resources available to pay benefits to retirees and beneficiaries, at the end of the year reported.

- The Statement of Changes in Fiduciary Net Assets is presented for the pension trust funds for the year ended June 30, 2007. These financial statements reflect the changes in the resources available to pay benefits to retirees and beneficiaries, at the end of the year reported.

(2) The Notes to the Financial Statements provide additional information that is essential for a full understanding of the data provided in the financial statements. The information in the Notes to the Financial Statements is described as follows:

- Note A provides a summary of significant accounting policies, including the basis of accounting, capital assets and equipment used in operations, operating lease, GASB 50 Disclosures, summaries of investment vendors and other significant accounting policies or explanations.

- Note B provides information about litigation.

- Note C describes the debt obligation of the PERS-DCRP concerning the INTERCAP implementation loan. House Bill 125 passed during the 2007 Legislative session provided for payment of the loan balance from the General Fund. This loan was paid off on May 8, 2007 in the amount of $1,375,015.

- Note D describes the plans' membership and descriptions of the plans administered by the PERB. Summaries of benefits and contribution information are also provided.

(3) The required supplementary information consists of the schedules of funding progress and required contributions and related notes concerning actuarial information of the defined benefit pension plans administered by the PERB.

Financial Analysis of the Systems – Defined Benefit Plans

Investments

The State of Montana Board of Investments (BOI), as authorized by state law, invests the defined benefit plans' assets in investment pools. Each plan owns an equity position in the pools and receives proportionate investment income from the pool in accordance with respective ownership. The investment pools are: Montana Short Term Investment Pool, Montana Domestic Equity Pool, Retirement Fund Bond Pool, Montana International Equity Pool, Montana Real Estate Pool and Montana Private Equity Pool. Each plan's allocated share of the investment in the pools is shown in the Statement of Fiduciary Net Assets of the plan. Investment gains and losses are reported in the Statement of Changes in Fiduciary Net Assets.

Defined Benefit Plans Total Investments

At June 30, 2007, the PERB's defined benefit plans held total investments of $4.8 billion, an increase of $697 million from fiscal year 2006 investment totals. On the next page are the schedules of Net Assets and Changes in Net Assets for the defined benefit plans including comparative totals from fiscal year 2006.

Analysis of Individual Systems

PERS-DBRP and Education

The PERS-DBRP provides retirement, disability and death benefits for covered employees of the State, local governments and certain employees of the university systems and school districts. Member and employer contributions and earnings on investments fund the benefits of the plan. The PERS-DBRP and the Education Fund have been combined in these comparisons. The PERS-DBRP net assets held in trust for benefits at June 30, 2007 amounted to $4.1 billion, an increase of $582 million (16.5 percent) from $3.5 billion at June 30, 2006.

Additions to the PERS-DBRP net assets held in trust for benefits include employer, member and state contributions and investment income. For the fiscal year ended June 30, contributions decreased to $136.8 million in fiscal year 2007 from $155.2 million in fiscal year 2006, a decrease of $18.4 million (11.8 percent). Contributions decreased due to an increased number of members electing the PERS-DCRP instead of the PERS-DBRP plan. The plan had net investment income of $629.6 million for the fiscal year ended June 30, 2007 compared with net investment income of $293.7 million for the fiscal year ended June 30, 2006. The increase in investment income is due to greater investment returns.

Deductions from the PERS-DBRP net assets held in trust for benefits primarily include retirement benefits, refunds and administrative expenses. For fiscal year 2007, benefits amounted to $166.2 million, an increase of $12.3 million (8.0 percent) from fiscal year 2006. The increase in benefit payments was due to the increase in benefit recipients and the increase in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA). For fiscal year 2007, refunds amounted to $13.6 million, an increase of $234 thousand (1.8 percent) from fiscal year 2006. The increase in refunds was due to larger refunds. For fiscal year 2007, the costs of administering the plan's benefits amounted to $2.7 million, a decrease of $205 thousand (7.1 percent) from fiscal year 2006. The decrease in administrative expenses for the fiscal year 2007 was due to vacancy savings, a reduction in planned expenses on publications and other expenses associated with member communications.

An actuarial valuation of the PERS-DBRP assets and benefit obligations is usually performed every two years. House Bill 771, effective June 1, 2007 and passed during the 2007 Legislative session, requires valuations to be performed annually. At June 30, 2007, the date of the most recent actuarial valuation, the funded status of the plan increased to 91 percent from 88 percent at June 30, 2006.

Fiduciary Net Assets - Defined Benefit Plans

As of June 30, 2007 *- and comparative totals for June 30, 2006*

(dollars in thousands)

	PERS		JRS		HPORS		SRS	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Assets:								
Cash and Receivables	122,070	102,576	1,899	1,627	2,993	2,320	6,234	5,820
Securities Lending Collateral	202,100	67,426	3,070	1,044	5,113	1,760	9,737	3,268
Investments	3,982,097	3,419,270	60,036	51,067	99,833	86,474	190,690	159,936
Property and Equipment								
Intangible Assets	213	103	2	1	2	1	3	2
Total Assets	4,306,480	3,589,375	65,007	53,739	107,941	90,555	206,664	169,026
Liabilities:								
Securities Lending Collateral	202,100	67,426	3,070	1,044	5,113	1,760	9,737	3,268
Other Payables	943	966	7	7	27	27	81	89
Total Liabilities	203,043	68,392	3,077	1,051	5,140	1,787	9,818	3,357
Total Net Assets	4,103,437	3,520,983	61,930	52,688	102,801	88,768	196,846	165,669

Changes In Fiduciary Net Assets - Defined Benefit Plans

For the year ended June 30, 2007 *- and comparative totals for June 30, 2006*

(dollars in thousands)

	PERS		JRS		HPORS		SRS	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Additions:								
Contributions	136,791	155,161	1,588	1,562	4,924	4,033	9,307	7,245
Investment Income (Loss)	629,559	293,679	9,435	4,344	15,875	7,453	29,732	13,566
Total Additions	766,350	448,840	11,023	5,906	20,799	11,486	39,039	20,811
Deductions:								
Benefits	166,188	153,886	1,772	1,743	6,460	6,365	6,770	6,152
Refunds	13,556	13,322			278	90	1,015	383
Administrative Expenses	2,681	2,886	8	12	28	31	77	77
Miscellaneous Expenses	1,420	1,248						
Total Deductions	183,845	171,342	1,780	1,755	6,766	6,486	7,862	6,612
Incr/(Decr) in Net Assets	582,505	277,498	9,243	4,151	14,033	5,000	31,177	14,199
Prior Period Adjustments	-51	65						

The PERS-DBRP actuarial value of assets is less than actuarial liabilities by $376.0 million at June 30, 2007, compared with $460.2 million at June 30, 2006. The increase in funded status as of the last actuarial valuation is a result of investment returns greater than the actuarial assumption.

JRS

The JRS provides retirement, disability and death benefits for all Montana judges of the district courts, justices of the Supreme Court and the Chief Water Judge. Member and employer contributions and earnings on investments fund the benefits of the plan. The JRS net assets held in trust for benefits at June 30, 2007 amounted to $61.9 million, an

GWPORS 2007	GWPORS 2006	MPORS 2007	MPORS 2006	FURS 2007	FURS 2006	VFCA 2007	VFCA 2006	TOTAL 2007	TOTAL 2006
2,692	2,907	13,605	12,958	12,916	12,185	2,254	1,921	164,663	142,314
3,619	1,158	10,097	3,349	9,607	3,189	1,302	464	244,645	81,658
70,659	56,614	197,708	165,079	188,022	157,225	25,298	21,563	4,814,343	4,117,228
3	2	2	1	2	1	2	3	229	114
76,973	60,681	221,412	181,387	210,547	172,600	28,856	23,951	5,223,880	4,341,314
3,619	1,158	10,097	3,349	9,607	3,189	1,302	464	244,645	81,658
48	58	72	66	61	56	49	46	1,288	1,315
3,667	1,216	10,169	3,415	9,668	3,245	1,351	510	245,933	82,973
73,306	59,465	211,243	177,972	200,879	169,355	27,505	23,441	4,977,947	4,258,341

GWPORS 2007	GWPORS 2006	MPORS 2007	MPORS 2006	FURS 2007	FURS 2006	VFCA 2007	VFCA 2006	TOTAL 2007	TOTAL 2006
5,837	5,418	15,669	14,766	14,096	13,333	1,661	1,610	189,873	203,128
10,838	4,594	31,080	14,091	29,577	13,409	4,103	1,853	760,199	352,989
16,675	10,012	46,749	28,857	43,673	26,742	5,764	3,463	950,072	556,117
2,085	1,835	12,692	12,032	11,851	11,040	1,637	1,564	209,455	194,617
702	490	717	599	241	46			16,509	14,930
47	49	70	68	56	58	50	48	3,017	3,229
						13	11	1,433	1,259
2,834	2,374	13,479	12,699	12,148	11,144	1,700	1,623	230,414	214,035
13,841	7,638	33,270	16,158	31,525	15,598	4,064	1,840	719,658	342,082
								-51	65

increase of $9.2 million (17.5 percent) from $52.7 million at June 30, 2006.

Additions to the JRS net assets held in trust for benefits include member and employer contributions and investment income. For the fiscal year ended June 30, 2007, contributions amounted to $1.59 million, an increase of $26 thousand (1.7 percent) from fiscal year 2006. Contributions increased due to an increase in the number of participating members. The plan recognized net investment income of $9.4 million for the fiscal year ended June 30, 2007 compared with net investment income of $4.3 million for the fiscal year ended June 30, 2006. The increase in investment income is due to greater investment returns.

Deductions from the JRS net assets held in trust for benefits mainly include retirement benefits and administrative expenses. For fiscal year 2007, benefits amounted to $1.8 million, an increase of $29 thousand (1.7 percent) from fiscal year 2006. The increase for benefits was due to an increase in the average recipient's benefit. For fiscal year 2007, administrative expenses amounted to $8 thousand, a decrease of $4 thousand (29.8 percent) from fiscal year 2006. The decrease in administrative expenses for the fiscal year 2007 was due to vacancy savings, a reduction in planned expenses on publications and other expenses associated with member communications.

An actuarial valuation of the JRS assets and benefit obligations is usually performed every two years. House Bill 771, effective June 1, 2007 and passed during the 2007 Legislative session, requires valuations to be performed annually. At June 30, 2007, the date of the most recent actuarial valuation, the funded status of the plan increased to 157 percent from 139 percent at June 30, 2006. The JRS actuarial assets were more than actuarial liabilities by $20.9 million at June 30, 2007, compared with a $14.6 million actuarial surplus at June 30, 2006. The increase in funded status as of the last actuarial valuation is due to investment returns greater than the actuarial assumption.

HPORS

The HPORS provides retirement, disability and death benefits for members of the Montana Highway Patrol. Member and employer contributions, registration fees and earnings on investments fund the benefits of the plan. The HPORS net assets held in trust for benefits at June 30, 2007 amounted to $102.8 million, an increase of $14 million (15.8 percent) from $88.8 million at June 30, 2006.

Additions to the HPORS net assets held in trust for benefits include employer and member contributions, registration fees and investment income. For the fiscal year ended June 30, contributions increased to $4.9 million in fiscal year 2007 from $4.0 million in fiscal year 2006, an increase of $891 thousand (22.1 percent). Contributions increased due to an increase in the number of participating members and an increase in average annual salary. The plan recognized net investment income of $15.9 million for the fiscal year ended June 30, 2007, compared with net investment income of $7.5 million for the fiscal year ended June 30, 2006. The increase in investment income is due to greater investment returns.

Deductions from the HPORS net assets held in trust for benefits mainly include retirement benefits, refunds and administrative expenses. For fiscal year 2007, benefits amounted to $6.5 million, an increase of $95 thousand (1.5 percent) from fiscal year 2006. The increase in benefit payments was due to the increase in benefit recipients and increases in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA). For fiscal year 2007 refunds amounted to $278 thousand, an increase of $188 thousand (209.1 percent) from fiscal year 2006. The increase in refunds was due to recent new hires terminating employment and requesting a refund. For fiscal year 2007, administrative expenses were $28 thousand, a decrease of $3 thousand (9.9 percent) from fiscal year 2006. The decrease in administrative expenses is due to vacancy savings, a reduction in planned expenses on publications and other expenses associated with member communications.

An actuarial valuation of the HPORS assets and benefit obligations is usually performed every two years. House Bill 771, effective June 1, 2007 and passed during the 2007 Legislative session, requires valuations to be performed annually. At June 30, 2007, the date of the most recent actuarial valuation, the funded status of the plan decreased to 75 percent from 78 percent at June 30, 2006. The HPORS actuarial assets were less than actuarial liabilities by $32.5 million at June 30, 2007, compared with $24.8 million at June 30, 2006. The asset returns were greater than the actuarial assumption. However, this was more than offset by increases in liabilities from salaries increasing more than expected. This result was a slight decrease in funded ratio.

SRS

The SRS provides retirement, disability and death benefits for all Department of Justice criminal investigators hired after July 1, 1993, detention officers and all Montana sheriffs. Member and employer contributions and earnings on investments fund the benefits of the plan. The SRS net assets held in trust for benefits at June 30, 2007 amounted to $196.8 million, an increase of $31.2 million (18.8 percent) from $165.7 million at June 30, 2006.

Additions to the SRS net assets held in trust for benefits include member and employer contributions and investment income. For the fiscal year ended June 30, contributions increased to $9.3 million in fiscal year 2007 from $7.2 million in fiscal year 2006, for an increase of $2.1 million (28.5 percent). Contributions increased due to an increase in the total compensation reported for active members and as a result of an increased number of participating members contributing to the plan in accordance with a 2005 Legislative amendment. This legislation requires new detention officers to join SRS and allowed current detention officers to elect to participate in SRS. The plan recognized net investment income of $29.7 million for the fiscal year ended June 30, 2007 compared with net investment income of $13.6 million for the fiscal year ended June 30, 2006. The increase in investment income is due to greater investment returns.

Deductions from the SRS net assets held in trust for benefits mainly include retirement benefits, refunds and administrative expenses. For fiscal year 2007, benefits amounted to $6.8 million, an increase of $618 thousand (10.0 percent) from fiscal year 2006. The increase in benefit payments was due to an increase in benefit recipients and an increase in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA). For fiscal year 2007, refunds amounted to $1.0 million, an increase of $632 thousand (164.9 percent) from fiscal year 2006. The increase in refunds was due to turnover resulting from the additional detention officers entering into the plan. For fiscal year 2007, administrative expenses increased $133 (0.2 percent) from fiscal year 2006. The slight increase is due to increased allocation of administrative costs as a result of the change in membership.

An actuarial valuation of the SRS assets and benefit obligations is usually performed every two years. House Bill 771, effective June 1, 2007 and passed during the 2007 Legislative session, requires valuations to be performed annually. At June 30, 2007, the date of the most recent actuarial valuation, the funded status of the plan increased to 97 percent from 95 percent at June 30, 2006. The SRS actuarial assets were less than actuarial liabilities by $5.1 million at June 30, 2007, compared with $8.8 million at June 30, 2006. The increase in funded status as of the last actuarial valuation is due to investment returns greater than the actuarial assumptions.

GWPORS

The GWPORS provides retirement, disability and death benefits for game wardens, warden supervisory personnel and state peace officers. Member and employer contributions and earnings on investments fund the benefits of the plan. The GWPORS net assets held in trust for benefits at June 30, 2007 amounted to $73.3 million, an increase of $13.8 million (23.3 percent) from $59.5 million at June 30, 2006.

Additions to the GWPORS net assets held in trust for benefits include member and employer contributions and investment income. For the fiscal year ended June 30, contributions increased to $5.8 million in fiscal year 2007 from $5.4 million in fiscal year 2006, for an increase of $419 thousand (7.7 percent). Contributions increased due to an increased number of participating members and an increase in the average annual salary. The plan recognized net investment income of $10.8 million for the fiscal year ended June 30, 2007 compared with net investment income of $4.6 million for the fiscal year ended June 30, 2006. The increase in investment income is due to greater investment returns.

Deductions from the GWPORS net assets held in trust for benefits mainly include retirement benefits, refunds and administrative expenses. For fiscal year 2007, benefits amounted to $2.1 million, an increase of $250 thousand (13.6 percent) from fiscal year 2006. The increase in benefit payments was due to the increase in benefit recipients and the increase in the average recipient’s benefit due to the guaranteed annual benefit adjustment (GABA). For fiscal year 2007, refunds amounted to $702 thousand, an increase of $212 thousand (43.2 percent) from fiscal year 2006. The increase in refunds was due to an increased number of refunds and larger refunds due to the vesting of the correction officers. For fiscal year 2007, administrative expenses amounted to $47.0 thousand, a decrease of $1.9 thousand (3.9 percent) from fiscal year 2006. The decrease in administrative expenses is due to vacancy savings, a reduction in planned expenses on publications and other expenses associated with member communications.

An actuarial valuation of the GWPORS assets and benefit obligations is usually performed every two years. House Bill 771, effective June 1, 2007 and passed during the 2007 Legislative session, requires valuations to be performed annually. At June 30, 2007, the date of the most recent actuarial valuation, the funded status of the plan increased slightly to 94 percent from 92 percent at June 30, 2006. The GWPORS actuarial assets were less than actuarial liabilities by $4.2 million at June 30, 2007, compared with $5.4 million at June 30, 2006. The change in unfunded liability as of the last actuarial valuation is due to investment returns greater than the actuarial assumption and salaries increasing less than expected.

MPORS

The MPORS provides retirement, disability and death benefits for municipal police officers employed by first- and second-class cities and other cities that adopt the plan. MPORS also has an option for members to participate in a Deferred Retirement Option Plan (DROP). Member, employer and state contributions and earnings on investments fund the benefits of the plan. The MPORS net assets held in trust for benefits at June 30, 2007 amounted to $211.2 million, an increase of $33.3 million (18.7 percent) from $177.9 million at June 30, 2006.

Additions to the MPORS net assets held in trust for benefits include employer, member, and state contributions and investment income. For the fiscal year ended June 30, contributions increased to $15.7 million in fiscal year 2007 from $14.8 million in fiscal year 2006, for an increase of $903 thousand (6.1 percent). Contributions increased because the total compensation reported for active members increased and membership increased. The plan recognized net investment income of $31.1 million for the fiscal year ended June 30, 2007 compared with net investment income of $14.1 million for fiscal year ended June 30, 2006. The increase in investment income is due to greater investment returns.

Deductions from the MPORS net assets held in trust for benefits mainly include retirement benefits, refunds and administrative expenses. For fiscal year 2007, benefits amounted to $12.7 million, an increase of $660 thousand (5.5 percent) from fiscal year 2006. The increase in benefit payments was due to the increase in benefit recipients and the increase in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA). For fiscal year 2007, refunds amounted to $717 thousand, an increase of $118 thousand (19.7 percent) from fiscal year 2006. The increase in refunds was due to more refunds and larger DROP refunds. For fiscal year 2007, administrative expenses were $70 thousand, an increase of $2 thousand (3.0 percent) from fiscal year 2006. The increase in administrative expenses in fiscal year 2007 is due to a new DROP publication and the allocation of administrative expenses due to increased membership.

An actuarial valuation of the MPORS assets and benefit obligations is usually performed every two years. House Bill 771, effective June 1, 2007 and passed during the 2007 Legislative session, requires valuations to be performed annually. At June 30, 2007, the date of the most recent actuarial valuation, the funded status of the plan increased to 64 percent from 60 percent at June 30, 2006. The MPORS actuarial assets were less than actuarial liabilities by $112.1 million at June 30, 2007, compared with $115.2 million actuarial liabilities at June 30, 2006. The increase in funded status as of the last actuarial valuation is due to investment returns greater than the actuarial assumption.

FURS

The FURS provides retirement, disability and death benefits for firefighters employed by first- and second-class cities and other cities that adopt the plan, and firefighters hired by the Montana Air National Guard on or after October 1, 2001. Member, employer, and state contributions and earnings on investments fund the benefits of the plan. The FURS net assets held in trust for benefits at June 30, 2007 amounted to $200.9 million, an increase of $31.5 million (18.6 percent) from $169.4 million at June 30, 2006.

Additions to the FURS net assets held in trust for benefits include employer, member, and state contributions and investment income. For the fiscal year ended June 30, contributions increased to $14.1 million in fiscal year 2007 from $13.3 million in fiscal year 2006, an increase of $763 thousand (5.7 percent). Contributions increased because the number of members contributing to the plan increased and the total compensation reported for active members increased. The plan recognized net investment income of $29.6 million for the fiscal year ended June 30, 2007 compared with net investment income of $13.4 million for the fiscal year ended June 30, 2006. The increase in investment income is due to greater investment returns.

Deductions from the FURS net assets held in trust for benefits mainly include retirement benefits, refunds and administrative expenses. For fiscal year 2007, benefits amounted to $11.9 million, an increase of $811 thousand (7.3 percent) from fiscal year 2006. The increase in benefit payments was due to the increase in benefit recipients and the increase in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA). For fiscal year 2007, refunds amounted to $241 thousand, an increase of $195 thousand (424.6 percent) from fiscal year 2006. The increase in refunds was due to more refunds and refunds of accounts with larger balances. For fiscal year 2007, administrative expenses were $56 thousand, a decrease of $2 thousand (3.6 percent). The decrease in administrative expenses is due to vacancy savings, a reduction in planned expenses on publications and other expenses associated with member communications.

An actuarial valuation of the FURS assets and benefit obligations is usually performed every two years. House Bill 771, effective June 1, 2007 and passed during the 2007 Legislative session, requires valuations to be performed annually. At June 30, 2007, the date of the most recent actuarial valuation, the funded status of the plan increased to 70 percent from 65 percent at June 30, 2006. The FURS actuarial assets were less than actuarial liabilities by $80.9 million at June 30, 2007, compared with $88.2 million actuarial liability at June 30, 2006. The increase in funded status as of the last actuarial valuation is due to investment returns greater than the actuarial assumption.

VFCA

The VFCA provides retirement, disability and death benefits for volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas. State contributions and earnings on investments fund the benefits of the plan. The VFCA net assets held in trust for benefits at June 30, 2007 amounted to $27.5 million, an increase of $4.1 million (17.3 percent) from $23.4 million at June 30, 2006.

Additions to the VFCA net assets held in trust for benefits include state contributions and investment income. For the fiscal year ended June 30, contributions increased to $1.66 million in fiscal year 2007 from $1.61 million in fiscal year 2006, an increase of $51 thousand (3.1 percent). Contributions increased because there was an increase in the fire insurance premium taxes collected. The plan recognized net investment income of $4.1 million for the fiscal year ended June 30, 2007 compared with net investment income of $1.9 million for the fiscal year ended June 30, 2006. The increase in investment income is due to greater investment returns.

Deductions from the VFCA net assets held in trust for benefits mainly include retirement benefits, administrative expenses and supplemental insurance payments. For fiscal year 2007, benefits amounted to $1.6 million, an increase of $73 thousand (4.7 percent) from fiscal year 2006. For fiscal year 2007, administrative expenses amounted to $50 thousand, an increase of $2 thousand (4 percent) from fiscal year 2006. The increase in administrative expenses was due to conversion to mainframe database in fiscal year 2006. For fiscal year 2007, supplemental insurance payments amounted to $12.9 thousand, an increase of $1,500 from fiscal year 2006.

An actuarial valuation of the VFCA assets and benefit obligations is performed every two years. At June 30, 2007, the date of the most recent actuarial valuation, the funded status of the plan increased to 82 percent from 73 percent at June 30, 2006. The VFCA actuarial assets were less than actuarial liabilities by $5.7 million at June 30, 2007, compared with $8.6 million at June 30, 2006. The increase in funded status as of the last actuarial valuation is due to investment returns greater than the last actuarial assumptions and a liability gain due to improvements in the database maintenance and correct reporting of membership.

Actuarial Valuations and Funding Progress

An actuarial valuation of each of the PERB's defined benefit plans is usually performed every two years. House Bill 771, effective June 1, 2007 and passed during the 2007 Legislative session, requires valuations be performed annually. VFCA is the only plan that is not affected by House Bill 771. At the date of the most recent actuarial valuation, June 30, 2007, the funded status of each of the plans is shown in the Schedule of Funding Progress on pages 80 and 81.

The PERB funding objective is to meet long-term benefit obligations through investment income and contributions. Accordingly, the collection of employer and member contributions and the income from investments provide the reserves needed to finance future retirement benefits. Since investment earnings are critical to the defined benefit plans' funding, the market decline and associated investment losses in fiscal year 2001 through fiscal year 2003 have deteriorated the plans' funding. However, in more recent years there have been better returns and an increased funding status has occurred in all defined benefit plans over the previous valuation, except in the HPORS plan. Public pension plans are considered actuarially sound if the unfunded accrued actuarial liability amortization period is less than 30 years. Montana's constitution requires that public retirement plans be funded on an actuarially sound basis.

The PERB has been concerned with the funding of three of the eight defined benefit retirement plans administered. The three plans are the PERS-Defined Benefit Retirement Plan (PERS-DBRP), the Game Wardens' and Peace Officers' Retirement System (GWPORS) and the Sheriffs' Retirement System (SRS). Based on the PERB's June 30, 2007 Actuarial Valuations the unfunded liability in these three plans will be amortized in less than 30 years. In the 2007 Legislative Session, House Bill 131 was introduced and passed to address the funding of these three plans. House Bill 131, effective July 1, 2007, either addresses increases in employer contribution rates or decreases the guaranteed annual benefit adjustment (GABA) for new members or both.

Funding ratios range from a high of 156.74 percent (JRS) to a low of 63.88 percent (MPORS). The Schedule of Funding Progress on pages 80 and 81 shows the June 30, 2007 funding ratios compared with the ratios at June 30, 2006, June 30, 2005, June 30, 2004 and June 30, 2002. The table also shows the amount by which actuarial assets exceeded or fell short of actuarial liabilities. The funding ratio increase is a result of the overall investment performance this past year, and the increase in the employer contribution and decrease in the guaranteed annual benefit adjustment (GABA). The actuary performs a smoothing of investment gains/losses over a period of four years. At June 30, 2007, the actuarial value of assets of all plans was less than the market value of assets by $25 million. At June 30, 2006, the actuarial value of assets was less than the market value of assets by $71 million.

Defined Contribution Plans

The PERB administers two defined contribution plans: The Public Employees' Retirement System-Defined Contribution Retirement Plan (PERS-DCRP) and the deferred compensation (457) Plan. The schedules of Net Assets and Changes in Net Assets for the two defined contribution plans are on page 32.

PERS-DCRP

The PERS-DCRP is established under Section 401(a) of the Internal Revenue Code. This plan provides retirement, disability and death benefits for plan members. This plan was available to all active PERS members effective July 1, 2002. All new hires to PERS have a 12-month window to file an irrevocable election to join the plan. The plan member and employer contributions and earnings on investments fund the benefits of the plan.

The PERB received a long-term INTERCAP loan through the Montana Department of Administration from the Board of Investments (BOI) to fund the plan implementation costs in fiscal year 2000. The loan was paid in full on May 8, 2007 with funding from the General Fund. This funding was due to House Bill 125, which passed in the 2007 Legislative session.

The plan net assets held in trust for benefits at June 30, 2007 amounted to $42.0 million, an increase of $11.4 million (37.1 percent) from $30.6 million at June 30, 2006.

Additions to the PERS-DCRP net assets held in trust for benefits include contributions and investment income. Contributions increased $2.6 million (40.6 percent) from $6.5 million in fiscal year 2006 to $9.1 million in fiscal year 2007. Contributions increased because of the number of members contributing to the plan increased. The plan recognized net investment income of $5.4 million in fiscal year 2007, up from $2.1 million in fiscal year 2006. The increase in investment income is due to greater investment returns.

Deductions from the PERS-DCRP net assets mainly include member distributions, administrative expenses and miscellaneous expenses. Distributions increased from $1.6 million in fiscal year 2006 to $2.6 million in fiscal year 2007. The $1.0 million increase in distributions from 2006 to 2007 was due to more defined contribution members and retirees taking a distribution. The costs of administering the plan increased from $227 thousand in fiscal year 2006 to $253 thousand in fiscal year 2007, an increase of $26 thousand (11.6 percent) from fiscal year 2006. The increase in administrative costs was due to being fully staffed. Miscellaneous expenses decreased from $295 thousand in fiscal year 2006 to $282 thousand in fiscal year 2007, a decrease of $13 thousand (4.3 percent) from fiscal year 2006. The decrease in miscellaneous expenses was due to decreased membership fees.

Deferred Compensation (457) Plan

The deferred compensation plan is established under Section 457 of the Internal

Revenue Code. This plan is a voluntary supplemental retirement savings plan for those who choose to participate. The deferred compensation plan is funded by contributions and by investment earnings. The plan's net assets held in trust for benefits at June 30, 2007 amounted to $288.9 million, an increase of $40.7 million (16.4 percent) from $248.2 million at June 30, 2006.

Additions to the deferred compensation plan net assets held in trust for benefits include contributions and investment income. For fiscal year 2007, contributions increased to $18.1 million from $17.3 million in fiscal year 2006, an increase of $812 thousand (4.7 percent). Contributions increased because of an increased number of members participating in the plan due to new employers joining the plan. The plan recognized net investment income of $37.1 million for fiscal year 2007 compared with net investment income of $3.6 million for fiscal year 2006. The increased investment income is due to greater investment returns.

Deductions from the deferred compensation plan net assets mainly include member and beneficiary distributions, administrative expenses and miscellaneous expenses. For fiscal year 2007, distributions amounted to $14.7 million, an increase of $3.3 million (28.4 percent) from $11.4 million at June 30, 2006. The costs of administering the plan increased from $204 thousand in fiscal year 2006 to $225 thousand in fiscal year 2007, an increase of $21 thousand (10.2 percent) from fiscal year 2006. The increase in administrative costs was due to more time being spent on development and maintenance of the 457 web payroll reporting. Miscellaneous expenses, the fees charged by the vendors to administer the plan, increased from $737 thousand in fiscal year 2006 to $781 thousand in fiscal year 2007, an increase of $44 thousand (6.0 percent) from fiscal year 2006. The increase in miscellaneous expenses was due to increased membership.

Fiduciary Net Assets - Defined Contribution Plans

As of June 30, 2007 *- and comparative totals for June 30, 2006*

(dollars in thousands)

	PERS-DCRP		457-PLAN		TOTAL	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Assets:						
Cash and Receivables	1,597	1,119	477	350	2,074	1,469
Securities Lending Collateral		14		5		19
Investments	40,420	30,934	288,538	247,944	328,958	278,878
Intangible Assets	3	2	56	105	59	107
Total Assets	42,020	32,069	289,071	248,404	331,091	280,473
Liabilities:						
Securities Lending Collateral		14		5		19
Other Payables	32	1,435	182	172	214	1,607
Total Liabilities	32	1,449	182	177	214	1,626
Total Net Assets	41,988	30,620	288,889	248,227	330,877	278,847

Changes In Fiduciary Net Assets - Defined Contribution Plans

For the year ended June 30, 2007 *- and comparative totals for June 30, 2006*

(dollars in thousands)

	PERS-DCRP		457-PLAN		TOTAL	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Additions:						
Contributions	9,144	6,506	18,063	17,251	27,207	23,757
Investment Income (Loss)	5,415	2,098	37,102	3,618	42,517	5,716
Total Additions	14,559	8,604	55,165	20,869	69,724	29,473
Deductions:						
Distributions	2,632	1,570	14,693	11,443	17,325	13,013
Administrative Expenses	253	227	225	204	478	431
Miscellaneous Expenses	282	295	781	737	1,063	1,032
Total Deductions	3,167	2,092	15,699	12,384	18,866	14,476
Incr/(Decr) in Net Assets	11,392	6,512	39,466	8,485	50,858	14,997
Prior Period Adjustments	-23		1,197	336	1,174	336

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Public Employees' Retirement Board

A Component Unit of the State of Montana

Statement of Fiduciary Net Assets - Pension Trust Funds

as of June 30, 2007

	PERS-DBRP	JRS	HPORS	SRS	GWPORS	MPORS
Assets						
Cash and Short-term Investments	$ 112,342,479	1,779,768	2,794,660	5,701,208	2,550,752	4,433,194
Securities Lending Collateral (Note A5)	202,100,050	3,070,040	5,112,689	9,736,752	3,619,441	10,096,737
Receivables						
Interest	7,993,872	119,547	197,979	378,230	141,503	389,867
Accounts Receivable	1,164,166			128,530	216	104,928
Due from Other Funds	333,949			26,517		
Due from Primary Government	150,538					8,677,428
Notes Receivable	85,246					
Total Receivables	9,727,771	119,547	197,979	533,277	141,719	9,172,223
Investments, at fair value (Note A5)						
Montana Domestic Equity Pool (MDEP)	1,735,718,440	26,347,685	43,439,439	84,481,106	31,082,349	87,098,507
Retirement Fund Bond Pool (RFBP)	987,821,047	15,576,342	25,897,415	49,550,742	18,331,517	51,175,541
Montana International Pool (MTIP)	818,362,199	12,162,381	20,512,696	38,003,530	14,344,125	39,783,655
Montana Private Equity Pool (MPEP)	315,058,722	4,744,137	7,979,371	14,858,605	5,497,113	15,547,396
Montana Real Estate Pool (MTRP)	79,459,123	1,205,723	2,004,487	3,796,030	1,403,713	4,102,451
Real Estate Investments	8,816,422					
Mortgages & Commercial Loans						
net of Accumulated Mortgage Discount	36,860,707					
Defined Contributions Fixed Investments						
Defined Contributions Variable Investments						
Deferred Compensation Life Insurance						
Total Investments	3,982,096,660	60,036,268	99,833,408	190,690,013	70,658,817	197,707,550
Capital Assets						
Property and Equipment, at cost,						
net of Accumulated Depreciation (Note A2)	513					
Intangible Assets, at cost,						
net of Amortization Expense (Note A2)	212,571	2,034	2,155	2,545	2,564	2,496
Total Capital Assets	213,084	2,034	2,155	2,545	2,564	2,496
Total Assets	4,306,480,044	65,007,657	107,940,891	206,663,795	76,973,293	221,412,200
Liabilities						
Securities Lending Collateral Liability	202,100,050	3,070,040	5,112,689	9,736,752	3,619,441	10,096,737
Accounts Payable	397,679	177	177	5,295	2,046	5,982
Due to Other Funds	162,934	7,409	26,859	75,850	45,793	65,708
Due to Primary Government	78,064					
Deferred Revenue	67,759			14	389	
Compensated Absences	236,498					763
Total Liabilities	203,042,984	3,077,626	5,139,725	9,817,911	3,667,669	10,169,190
Net Assets Held in Trust for Pension Benefits (see schedule of funding progress, page 80)	$ 4,103,437,060	61,930,031	102,801,166	196,845,884	73,305,624	211,243,010

The notes to the financial statements are an integral part of this statement.

Defined Benefit Pension Plans			Defined Contribution Plans			
FURS	VFCA	Total Defined Benefit Pension Plans	PERS-DCRP	457 Plan	Total Defined Contribution Plans	Total Pension Trust Funds 2007
4,503,929	2,203,661	136,309,651	1,454,400	472,161	1,926,561	138,236,212
9,606,528	1,301,837	244,644,074				244,644,074
370,457	50,193	9,641,648	6,030	2,020	8,050	9,649,698
83,871		1,481,711	12	2,337	2,349	1,484,060
		360,466	136,416		136,416	496,882
7,957,373		16,785,339				16,785,339
		85,246				85,246
8,411,701	50,193	28,354,410	142,458	4,357	146,815	28,501,225
82,765,957	11,042,855	2,101,976,338				2,101,976,338
48,813,017	6,542,177	1,203,707,798				1,203,707,798
37,848,457	5,258,371	986,275,414				986,275,414
14,849,782	1,950,858	380,485,984				380,485,984
3,744,412	503,866	96,219,805				96,219,805
		8,816,422				8,816,422
		36,860,707				36,860,707
			1,804,789	159,668,919	161,473,708	161,473,708
			38,615,150	128,857,211	167,472,361	167,472,361
				12,316	12,316	12,316
188,021,625	25,298,127	4,814,342,468	40,419,939	288,538,446	328,958,385	5,143,300,853
		513				513
2,358	2,241	228,964	3,022	55,639	58,661	287,625
2,358	2,241	229,477	3,022	55,639	58,661	288,138
210,546,141	28,856,059	5,223,880,080	42,019,819	289,070,603	331,090,422	5,554,970,502
9,606,528	1,301,837	244,644,074				244,644,074
2,056		413,412	8,345	164,428	172,773	586,185
54,727	48,729	488,009	7,013	1,861	8,874	496,883
		78,064	1,615	1,097	2,712	80,776
3,758		71,920				71,920
		237,261	14,401	14,223	28,624	265,885
9,667,069	1,350,566	245,932,740	31,374	181,609	212,983	246,145,723
200,879,072	27,505,493	4,977,947,340	41,988,445	288,888,994	330,877,439	5,308,824,779

Public Employees' Retirement Board

A Component Unit of the State of Montana

Statement of Changes in Fiduciary Net Assets - Pension Trust Funds
for the year ended June 30, 2007

		PERS-DBRP	JRS	HPORS	SRS	GWPORS	MPORS
Additions							
Contributions (Note D)							
Employer	$	66,901,746	1,249,433	3,634,397	4,386,168	2,637,596	4,282,817
Plan Member		69,054,206	338,856	988,310	4,848,984	3,190,366	2,708,560
Membership Fees		52					
Interest Reserve Buyback		95,694		16,954	72,177	8,981	159
Retirement Incentive Program		291,985					
Registration Fee Collections				284,631			
Miscellaneous Revenue		1,536			30		2
State Contributions		445,798					8,677,428
Nonvested Member Forfeitures							
Total Contributions		136,791,017	1,588,289	4,924,292	9,307,359	5,836,943	15,668,966
Investments (Note A5)							
Net Appreciation (Depreciation)							
in Fair Value of Investments		457,602,129	7,088,188	11,303,873	23,335,976	8,576,141	23,650,313
Interest		167,854,762	2,283,061	4,465,849	6,188,510	2,187,418	7,216,119
Dividends		13,760,866	207,602	347,607	657,774	239,244	687,250
Investment Expense		(10,055,948)	(149,499)	(251,906)	(468,711)	(171,546)	(492,997)
Net Investment Income		629,161,809	9,429,352	15,865,423	29,713,549	10,831,257	31,060,685
Securities Lending Income							
Securities Lending Income		7,545,107	114,928	193,621	360,694	131,789	374,689
Securities Lending Rebate and Fees		(7,148,204)	(108,953)	(183,559)	(341,951)	(124,911)	(355,140)
Net Securities Lending Income		396,903	5,975	10,062	18,743	6,878	19,549
Total Net Investment Income		629,558,712	9,435,327	15,875,485	29,732,292	10,838,135	31,080,234
Total Additions		766,349,729	11,023,616	20,799,777	39,039,651	16,675,078	46,749,200
Deductions (Note D)							
Benefits		166,187,966	1,772,203	6,460,218	6,769,508	2,085,050	12,691,520
Refunds/Distributions		12,867,508		139,187	933,883	701,647	688,217
Refunds to Other Plans		688,128		139,003	81,738		28,814
Transfers to DCRP		1,209,017					
Transfers to ORP		211,020					
Supplemental Insurance Payments							
Administrative Expenses		2,681,173	8,425	27,939	77,133	47,087	70,010
Miscellaneous Expenses							
Total Deductions		183,844,812	1,780,628	6,766,347	7,862,262	2,833,784	13,478,561
Net Increase (Decrease)		582,504,917	9,242,988	14,033,430	31,177,389	13,841,294	33,270,639
Net Assets Held in Trust for Pension Benefits							
Beginning of Year		3,520,982,676	52,687,043	88,767,736	165,668,495	59,464,330	177,972,371
Prior Period Adjustment		(50,533)					
End of Year	$	4,103,437,060	61,930,031	102,801,166	196,845,884	73,305,624	211,243,010

The notes to the financial statements are an integral part of this statement.

		Defined Benefit Pension Plans	Defined Contribution Plans			
FURS	VFCA	Total Defined Benefit Pension Plans	PERS-DCRP	457 Plan	Total Defined Contribution Plans	Total Pension Trust Funds 2007
3,520,104		86,612,261	2,856,968	74,184	2,931,152	89,543,413
2,618,652		83,747,934	4,394,129	17,711,925	22,106,054	105,853,988
		52				52
		193,965				193,965
		291,985				291,985
		284,631				284,631
		1,568	1,578,109	276,945	1,855,054	1,856,622
7,957,373	1,660,695	18,741,294				18,741,294
			315,084		315,084	315,084
14,096,129	1,660,695	189,873,690	9,144,290	18,063,054	27,207,344	217,081,034
22,413,949	2,943,090	556,913,659	3,828,040	24,579,082	28,407,122	585,320,781
6,957,952	1,133,630	198,287,301	1,586,585	13,023,626	14,610,211	212,897,512
654,500	89,420	16,644,263				16,644,263
(468,371)	(65,189)	(12,124,167)		(501,135)	(501,135)	(12,625,302)
29,558,030	4,100,951	759,721,056	5,414,625	37,101,573	42,516,198	802,237,254
358,038	49,770	9,128,636	73	25	98	9,128,734
(339,400)	(47,155)	(8,649,273)	(73)	(25)	(98)	(8,649,371)
18,638	2,615	479,363				479,363
29,576,668	4,103,566	760,200,419	5,414,625	37,101,573	42,516,198	802,716,617
43,672,797	5,764,261	950,074,109	14,558,915	55,164,627	69,723,542	1,019,797,651
11,850,904	1,636,980	209,454,349				209,454,349
241,320		15,571,762	2,631,609	14,692,652	17,324,261	32,896,023
		937,683				937,683
		1,209,017				1,209,017
		211,020				211,020
	12,900	12,900				12,900
55,913	49,926	3,017,606	253,209	224,723	477,932	3,495,538
			282,453	781,488	1,063,941	1,063,941
12,148,137	1,699,806	230,414,337	3,167,271	15,698,863	18,866,134	249,280,471
31,524,660	4,064,455	719,659,772	11,391,644	39,465,764	50,857,408	770,517,180
169,354,412	23,441,038	4,258,338,101	30,620,268	248,226,353	278,846,621	4,537,184,722
		(50,533)	(23,467)	1,196,877	1,173,410	1,122,877
200,879,072	27,505,493	4,977,947,340	41,988,445	288,888,994	330,877,439	5,308,824,779

Public Employees' Retirement Board

A Component Unit of the State of Montana

Notes to the Financial Statements

for the Fiscal Year Ended June 30, 2007

The Public Employees' Retirement Board (PERB) administers ten retirement plans and the related member education funds. The retirement plans are eight defined benefit plans and two defined contribution plans. The *defined benefit* retirement plans are the Public Employees' Retirement System (PERS-DBRP), Judges' Retirement System (JRS), Highway Patrol Officers' Retirement System (HPORS), Sheriffs' Retirement System (SRS), Game Wardens' and Peace Officers' Retirement System (GWPORS), Municipal Police Officers' Retirement System (MPORS), Firefighters' Unified Retirement System (FURS), and the Volunteer Firefighters' Compensation Act (VFCA). The *defined contribution* retirement plans are the Public Employees' Retirement System (PERS-DCRP) and the Deferred Compensation (IRC §457) Plan. The PERS-DCRP was implemented July 1, 2002. All PERS new hires after July 1, 2002 have a 12-month window to file an irrevocable plan choice election. The deferred compensation plan is available to employees of the state and university system, and to local political subdivisions that contract with the plan.

PERS members are provided member education as a tool to help them decide between participation in the Defined Benefit Retirement Plan (PERS-DBRP) or the Defined Contribution Retirement Plan (PERS-DCRP). If members are employees of the university system they have a third choice, the Optional Retirement Program (ORP). The plan choice is a one-time irrevocable election. Further education is provided for the members who choose the PERS-DCRP, including information on investment choices. The Montana Public Employee Retirement Administration (MPERA) participates as an employer in the PERS-DBRP, PERS-DCRP and the deferred compensation (457) plan.

The assets of each plan are maintained separately, including member education funds. The assets may be used only for the payment of benefits to the members and administrative expenses of the appropriate plan, in accordance with the terms of each plan as prescribed in Title 19 of the Montana Code Annotated (MCA). The financial statements are presented by combining the PERS-DBRP and the DBRP Education Fund and by combining the PERS-DCRP, the DCRP Education Fund and the DCRP Disability Fund. A presentation of each individual fund is shown at the end of the financial section on pages 90 to 92.

A. Summary of Significant Accounting Policies

1. Basis of Accounting

The PERB is a discretely presented component unit Pension Trust Fund of the State of Montana financial reporting entity. The MPERA, staff of the PERB, prepares the accounting records and financial statements for the fiduciary/pension trust funds using the accrual basis of accounting. For the pension trust funds, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period in which they are earned and become measurable. Benefits and refunds/ distributions are recognized in the accounting period in which they are due and payable. Expenses are recognized in the period incurred. Administrative expenses are financed through investment earnings on the pension trust fund for the defined benefit plans. Interfund receivables and payables exist at year-end because all defined benefit administrative expenses are accounted for within PERS-DBRP and allocated to the other defined benefit plans at year-end.

Adjustments to the fiscal year 2007 financial statements consist of a prior period adjustment to the PERS-DBRP plan for prior years' employer reporting errors of lump sum vacation payouts without termination. A prior period adjustment to the fiscal year 2007 financial statements for the PERS-DCRP was a correction of a participant enrollment error. Adjustments to the 457 plan were based on updated information on the fixed investment account received from State Street Bank Kansas City (SSKC), the custodial bank.

Participants of the PERS-DCRP are charged, on a quarterly basis, a flat fee plus a basis point fee on their account balance. The flat fee covers the recordkeeping provided by Great West Retirement Services (Great West). The basis point fee is remitted to the PERB to cover the PERB's administrative expenses of the plan. The fees returned to the PERB are recorded as *Miscellaneous Revenue* in the financial statements.

Participants of the deferred compensation (457) plan are charged quarterly fees based on individual account balances. The record keeper, Great West, withholds the fees from participants accounts and after payment of Great West's contractual expenses, the excess fees are remitted to the PERB. The excess fees, recorded as *Miscellaneous Revenue* in the financial statements, are used to pay the PERB's related administrative expenses.

2. Capital Assets and Equipment Used in Operations

Assets under $5,000 are expensed in the year purchased. Assets valued at $5,000 or more are recorded at cost less straight-line depreciation over the estimated useful life of five to ten years. Equipment consists of a server. Capital assets include the web-based employer reporting software and the MPERA website.

A new server was purchased in September 2005. The accumulated depreciation of the server as of June 30, 2007 is $3,650 and the carrying value is $4,314. The accumulated depreciation on the web-based reporting system is $1,227,849 as of June 30, 2007. The carrying value as of June 30, 2007 is $199,168. For the 457 web-based employer reporting system the accumulated depreciation as of June 30, 2007 is $136,160 and the carrying value is $51,427. The accumulated depreciation on the MPERA website as of June 30, 2007 is $35,561 and the carrying value is $32,717.

3. Operating Lease

Operating leases are rental agreements where the payments are chargeable as rent and recorded as administrative expenses. The MPERA entered into a 10-year lease for office space in November 2003, at the location of 100 North Park. The lease is payable monthly and includes inflationary adjustments over the period of the lease.

4. Funded Status And Funding Progress

Effective June 30, 2007, the Montana Public Employees' Retirement Administration (MPERA) implemented the provision of the Governmental Accounting Standards Board (GASB) Statement No. 50 - Pension Disclosures. The disclosures are amendments to GASB Statement 25 and present the disclosures of the actuarial methods, assumptions and funded status of the plan in the financial notes.

The funded status of the eight defined benefit retirement plans, as of the most recent actuarial valuation date, is in the table below.

The net Funded Ratio increased in fiscal year 2007 for all retirement plans, except for HPORS, which decreased 3%

Funded Ratio as of June 30, 2007	
PERS-DBRP	91%
JRS	157%
HPORS	75%
SRS	97%
GWPORS	94%
MPORS	64%
FURS	70%
VFCA	82%

The required supplementary information (RSI), following the notes to the financial statements, presents similar information but uses a multi-year format to show trend information. These trends indicate whether the actuarial values of the plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities.

The information on the next page is general and applicable to all defined benefit plans.

Funded Status as of June 30, 2007

(dollar amounts are in thousands)

System	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
PERS-DBRP	$3,825,234	$4,201,251	$376,017	91.05%	$907,424	41.44%
JRS	57,778	36,863	(20,915)	156.74%	4,841	-432.04%
HPORS	95,758	128,306	32,548	74.63%	9,858	330.17%
SRS	183,894	189,036	5,142	97.28%	43,611	11.79%
GWPORS	68,755	72,992	4,237	94.20%	28,799	14.71%
MPORS	198,310	310,423	112,113	63.88%	29,547	379.44%
FURS	188,545	269,399	80,854	69.99%	24,250	333.42%
VFCA	25,862	31,599	5,737	81.84%	N/A*	N/A*

*The covered payroll is not applicable to VFCA because members are unpaid volunteers.

General to All Retirement Systems	
Valuation date	June 30, 2007
Actuarial cost method	Entry Age
Amortization method	Level percent payroll, open
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases:	
General Wage Growth*	4.25%
*includes inflation rate at	3.25%
Guaranteed annual benefit adjustment (GABA), except VFCA	3% after 1 year. Effective July, 1, 2007, 1.5% GABA reduction for new hires of PERS, SRS and GWPORS.

Remaining Amortization Period	
PERS-DBRP	21.9 years
JRS	30 years (surplus)
HPORS	19.1 years
SRS	19.6 years
GWPORS	11.3 years
MPORS	20.5 years
FURS	12.9 years
VFCA	5.1 years

Merit Projected Salary Increases	
PERS-DBRP	0% - 6%
JRS	None
HPORS	0% - 7.3%
SRS	0% - 7.3%
GWPORS	0% - 7.3%
FURS	0% - 7.3%
VFCA	N/A

The non-GABA benefit adjustment for PERB's retirement systems only effects four systems: JRS, HPORS, MPORS and FURS. A table showing the non-GABA adjustment for these systems follow

Non-GABA Benefit Adjustment	
JRS	Biennial increase to salary of active member in like position
HPORS	2% per year of service for newly confirmed officers
MPORS	50% of newly confirmed officers
FURS	50% of newly confirmed officers

5. Method Used to Value Investments

According to Article VIII, Section 13 of the Montana Constitution and section 19-2-504, MCA, the BOI has a fiduciary responsibility for investing the defined benefit retirement plan assets on behalf of the defined benefit plans. Investments are determined in accordance with the statutorily and constitutionally mandated "prudent expert principle." Pursuant to Article VIII, Section 15 of the Montana Constitution and section 19-2-502, MCA, the PERB has a fiduciary responsibility for the administration of the pension trust funds. Investments are reported at fair value. As of June 30, 2007, there were six major diversified pools, Montana Short Term Investment Pool (STIP), Montana Domestic Equity Pool (MDEP), Retirement Funds Bond Pool (RFBP), Montana International Pool (MTIP), Montana Private Equity Pool (MPEP) and Montana Real Estate Investment Pool (MTRP).

The PERS-DCRP and the deferred compensation plan's fixed investments were invested and managed on behalf of the plans by Pacific Investment Management Company (PIMCO) and the custodial bank State Street Bank Kansas City

(SSKC). The third party record keeper, Great West Retirement Services, tracks and reports the daily trading and valuations of all investment options including the assets held by the individual mutual fund companies. In addition to the laws cited above, the PERS-DCRP is also governed by section 19-3-2122, MCA and there are separate investment policies for the 457 deferred compensation and 401(a) defined contribution plans. The investment policies are reviewed on an annual basis and the investment options are reviewed at least annually by an independent third party consultant and investment analyst. In the review, each investment alternative is compared to its peers and the appropriate benchmark and compared against the relevant Investment Policy Statement. In addition, each investment alternative is reviewed for other indicators including, but not limited to, style drift, duplication, fund manager or other organizational changes. Investment alternatives that are determined to have a sub-standard performance rating or other negative indicators may be recommended for probation or termination. Investments are reported at fair value as of June 30, 2007.

The following are the summaries of the BOI's fiscal year end statements, the PIMCO/SSKC contracts and a statement about the variable investments. The BOI fiscal year end statements can be obtained by contacting BOI.

STIP portfolio may include asset-backed securities, commercial paper, corporate and government securities, repurchase agreements, institutional money market funds and variable-rate (floating-rate) instruments. These securities provide a diversified portfolio earning a competitive total rate of return. Funds may be invested for relatively short periods. State agencies with accounts that retain interest earnings are legally required to invest in STIP and the PERB elects to have all STIP income automatically reinvested. Investments are reported at fair value based on market prices supplied to the BOI by the BOI's custodial bank. The unit value is fixed at $1.00. A purchased unit earns income on the purchase date and ceases to earn income on the day before the unit is sold. STIP income reflects the monthly earnings of the STIP portfolio and is distributed on the first calendar day of the month, with the exception of the June distribution. Income for June is distributed on the last calendar day of the month. Administrative expenses incurred by the BOI are charged daily to STIP based on their expenses applicable to STIP. STIP is considered an external investment pool and is permitted to report investments at amortized costs per the Governmental Accounting Standards Board (GASB) Statement No. 31 and is classified as a "2a7-like" pool. STIP is not registered with the Securities and Exchange Commission (SEC) but does operate in a manner consistent with SEC rules. *Credit Risk* is that the issuer of a STIP security may default in making timely principal and interest payments. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. STIP securities have credit risk as measured by major credit rating services. STIP investments are required to have the highest rating in the short-term category by at least one Nationally Recognized Statistical Rating Organization (NRSRO). The total fixed income investments credit quality rating for STIP is A1+. The PERB portion of

STIP is 5.0 percent. For *Custodial Credit Risk* as of June 30, 2007, all the STIP securities were registered in the nominee name for the BOI and held in the possession of the BOI's custodial bank, State Street Bank. According to the STIP Investment Policy, "repurchase agreements will be collateralized by the market value plus accrued income of U.S. Treasury, U.S. Agency and money market securities at 102% of the value of the repurchase agreement". *Interest Rate Risk* disclosures are not required for "2a7-like" pools.

MDEP portfolio may include common stock, equity index, preferred stock, convertible equity securities, American Depositary Receipts (ADR's) equity derivatives and commingled funds. The MDEP was established in April 2003. Effective May 1, 2003, the retirement funds transferred investments totaling $740 million, at cost, from the All Other Funds portfolio to the new pool. The pensions also exchanged their investment in the Montana Stock Pool (MTCP) for stocks in the new MDEP. Portfolio cash is swept daily into the State Street Stock Performance Index Futures Funds (SPIFF) maintaining 100% equity exposure through holdings of stock index futures. The value of MDEP units purchased and sold by participants is the result of asset allocation decisions. Investments are presented at fair value. Unit values are calculated weekly and at the close of the last business day of the month. Equity investments, on valuation date, are stated at the closing price of the security's primary exchange. Depending on stock market conditions and the investment officer's decision, MDEP participants may then buy or sell units on the first calendar day of each month based on the month end values. MDEP security transactions are recorded as of trade date rather than settlement date. Because of this generally accepted practice, the MDEP portfolio at June 30 may include receivables from brokers for securities sold but not delivered, and payables to brokers for securities purchased but not received. Administrative expenses incurred by the BOI, which included custodial bank fees, are charged daily to MDEP based on the board's expenses applicable to MDEP. Commingled funds are used to reduce management and administration costs. The PERB portion of MDEP is 60.62 percent. For *Custodial Credit Risk* as of June 30, 2007, all the MDEP securities were registered in the nominee name for the BOI and held in the possession of the BOI's custodial bank, State Street Bank. The BGI Standard & Poor's 500 Passive Equity Index Fund, BGI Standard & Poor's 400 MidCap Passive Equity Index Fund, Dimensional Fund Small Cap Enhanced Index, Goldman Sachs and Western Asset Large Cap Enhanced Index commingled funds are registered in the name of the Montana BOI.

RFBP portfolio includes corporate securities, foreign government bonds, U.S. government direct-backed, U.S. government indirect-backed and cash equivalents. RFBP investments are presented at fair value. Fair values are determined, primarily, by reference to fair market prices supplied to the BOI by its custodial bank, State Street Bank. Premiums and discounts are amortized/accreted using the straight-line or scientific method to the call, average life or maturity date of the securities. Unit values are calculated weekly and at month end, based on portfolio pricing, to allow for participant transactions to occur as determined by the BOI's investment staff. The June 30, 2007 unit value of $100.47 increased from the June 30, 2006 unit value of $99.81. Interest rates decreased during the fiscal year, which has the effect of increasing bond prices and the pool unit value. To rebalance the pension funds' portfolios in fiscal year 2007, RFBP units were purchased. RFBP security transactions are recorded as of the trade date rather than the settlement date. Because of this generally accepted practice, the RFBP net asset value at June 30 may include receivables from brokers for securities sold, but not delivered, and payables to brokers for securities purchased, but not received. Accumulated income is distributed monthly on the first calendar day of the month. Realized portfolio gains/losses are distributed at least annually to the participants. Administrative expenses incurred by the BOI, including custodial bank fees, are charged daily to RFBP based on applicable BOI expenses. *Credit Risk* is that the issuer of a fixed income security may default in making timely principal and interest payments. RFBP fixed income investments, at the time of purchase, are required to be rated an investment grade as defined by Moody's or by Standard & Poor's (S&P) rating services. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The total fixed income investments credit quality rating for RFBP is AA. For *Custodial Credit Risk* as of June 30, 2007, all the fixed income securities were registered in the nominee name for the BOI and held in the possession of the BOI's custodial bank, State Street Bank. The State Street repurchase agreement was purchased in the State of Montana BOI name. The RFBP investment policy does not formally address *Interest Rate Risk*. In accordance with GASB Statement No. 40, the BOI has selected the effective duration method to disclose interest rate risk. The fair value of total fixed income investments is $1,964,715,151 with an effective duration of 5.27. The PERB portion of RFBP is 61.14 percent.

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets.

MTIP portfolio for fiscal year 2007 includes equity portfolios invested in securities of foreign-based corporations listed on legal and recognized foreign exchanges as well as domestic exchanges. There are currently 13 separate managers investing funds within the MTIP. The external investment managers invest excess cash in the custodial bank's Short Term Investment Fund (STIF). Because transactions are recorded as of the trade date rather than settlement date, at June 30 the MTIP Net Asset Value may include receivables from brokers for securities sold, but not delivered, and payables to brokers for securities purchased, but not received. Investments are presented at current U.S. dollar value after conversion from foreign currency amounts by the custodial bank, State Street Bank. Unit values are calculated weekly and once a month at the close of the last business day of the month. Based on the BOI Investment Officer's decision, participants are allowed to buy or sell units on the first business day of each month. All participant buys or sells occur after distribution of accumulated income. Realized gains/losses from the sale of securities and related foreign exchange transactions are retained by each fund. MTIP income is distributed at least monthly to the retirement funds, net of external manager fees and administrative expenses, on the first business day of the following month. For *Custodial Credit Risk* as of June 30, 2007, all MTIP securities were registered in the nominee name for the Montana BOI and held in the possession of the BOI's custodial bank, State Street Bank. *Foreign Currency Risk* is the risk that changes in exchange rates will adversely affect the fair value of an investment. The MTIP has significant investments in multiple foreign countries. Future economic and political developments in these countries could adversely affect the liquidity or value, or both, of the securities in which MTIP is invested. The table in the next column discloses the investments by currency and investment type in U.S. dollars. The PERB portion of MTIP is 61.18 percent.

MPEP portfolio includes venture capital, leveraged buyout, mezzanine, distressed debt, special situation and secondary investments. The MPEP was established in April 2002 to allow retirement funds the opportunity to participate in the venture capital and leveraged buyout markets and other private equity investments via a diversified pool. Given the complexity and specialization of private equity investment, the BOI contracts with twenty-six private equity managers. Investments are presented at fair value and because no recognized market exists for private equity investment, the investments, on the valuation date, are stated at the fair value reported in the most recent external managers' valuation reports. The pool portfo-

MTIP Cash by Currency

Cash (in thousands)		Fair Value 6/30/2007
Australian Dollar	$	793
Brazilian Real		-
Canadian Dollar		18
Danish Krone		52
Hong Kong Dollar		320
Hungarian Forint		24
Euro		1,268
Israeli Shekel		9
Japanese Yen		2,984
South Korean Won		43
Malaysian Ringgit		27
Mexican Peso		2
Norwegian Krone		448
Singapore Dollar		86
Swedish Krona		72
Swiss Franc		540
New Taiwan Dollar		63
Thailand Baht		12
Turkish Lira		4
UK British Pound		388
US Dollar		-
Total Cash	$	7,156

MTIP Investment by Security Type

Security Investment Type (in thousands)		Fair Value 6/30/2007
Axa Rosenberg Investment	$	57,912
BGI MSCI Europe Index		174,066
BGI Alpha Tilts		126,482
DFA International Small Co.		68,532
State Street ISPIFF		50,883
Nomura Asset Mgmt		97
Batterymarch Financial Management		210,513
Julius Baer Investment Management		192,569
Acadian Asset Mgmt		161,658
Alliance/Bernstein		144,312
Martin Currie		125,725
Hansberg Global Investors		127,752
Principal Global Investors		74,128
Total Investments	$	1,612,071
Securities Lending Collateral Investment Pool	$	145,724

lio is priced quarterly. Unit values are calculated at month end. Based on the BOI Investment Officer's decision, participants are allowed to buy, reinvest or sell units on the first business day of each month. Administrative expenses incurred by the BOI are charged daily to the MPEP based on the BOI's expenses applicable to MPEP. For *Custodial Credit Risk* as of June 30, 2007, all MPEP investments were recorded in the name of the Montana BOI. *Foreign Currency Risk* includes certain MPEP investments that represent limited partnership investments in various foreign countries. Per GASB Statement No. 40, no foreign currency risk disclosure is required for these limited partnership investments. Private equity investments are recognized as investments with a higher degree of risk with a higher return potential. *Specific Risk* associated with MPEP is portfolio diversification achieved through multiple partnership relationships and investments diversified by time, financing stage, industry sector, investment size and geographical region. Private equity investments typically have a low correlation relative to other investment asset classes and contribute to the reduction of portfolio risk. The PERB portion of MPEP is 61.19 percent.

In July 2007, the BOI staff committed $35 million to Avenue Special Situations V, a distressed debt fund focused primarily on distressed and undervalued credit-related securities (both public and private), bank loans, trade claims and private investments (debt and equities). On August 31, 2007, BOI made the initial investment of $7.9 million which included investment, management fees, and purchased interest. In July 2007, the BOI staff also committed $25 million to Oaktree Capital Management (OCM) Opportunities Fund VII-B, a distressed debt fund focused on inefficient and alternative markets. Another $25 million commitment was granted for the Siguler Guff Small Buyout Opportunities Fund, a Small Cap buyout fund. On September 26, 2007, the Board funded the initial capital call in HarbourVest Partners 2007 Direct Fund of $1.6 million.

MTRP was approved by BOI on April 26, 2006, to permit the state's retirement systems to participate in a diversified real estate portfolio. The pension funds sold STIP shares totaling $30 million to fund the MTRP on June 1, 2006. Investments are presented at fair value. The MTRP will invest with external real estate managers with both open-end and closed-end pooled funds. The MTRP, as an internal investment pool, invests its excess cash in the BOI's STIP. Per GASB Statement No. 40, no foreign currency risk disclosure is required for MTRP limited partnership investments. *Specific Risks* associated with MTRP are achieved through multiple manager relationships and investments diversified by time, real estate type, real estate size and geographical region. The PERB portion of MTRP, which only is applicable to PERS, is 60.60 percent.

All Other Funds (AOF) Investments are owned by various State of Montana agencies and managed on their behalf by the BOI. The portfolio for the pension plans include real estate, mortgages and other equity index investments. Fair values are determined, primarily, by reference to market prices supplied to the BOI by its custodial bank, State Street Bank. The real estate investments and residential and multi-family mortgages are valued based on a discounted cash flow. The mortgages receivable funded by the retirement systems consist of residential mortgages. As of June 30, 2007, there were no uncollectible account balances for mortgages. Real estate investments held, in part, for the PERS include a building at 100 North Park Avenue in Helena, MT; a building at 2273 Boot Hill Court in Bozeman, MT; a building at 2401 Colonial Drive in Helena, MT; and property located on California Street in Helena, MT. The BOI also holds the building located at 1712 Ninth Avenue in Helena, MT for the sole benefit of the PERS. *Credit Risk:* As of June 30, 2007, the PERB did not have a credit quality rating for the total fixed income investments. For Montana mortgages, there is a lien on the real estate property. In the event of default, the property can be sold. *Custodial Credit Risk* as of June 30, 2007 has all other equity, real estate, and mortgage investments registered in the name of the Montana BOI. There is no *Concentration of Credit Risk* for the PERB. Interest *Rate Risk* is not formally addressed in the AOF investment policies. In accordance with GASB Statement No. 40, the BOI has selected the effective duration method to disclose interest rate risk.

Securities Lending Collateral, governed under the provisions of state statutes, authorizes the custodial bank, State Street Bank, to lend the BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. This is accomplished by the BOI via a Securities Lending Authorization Agreement. During the period the securities are on loan, the BOI receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the fair value of the loaned security and maintain collateral equal to not less than 102 percent of the fair value of the loaned security. These percentages for foreign currency is 105 percent of both loaned security and maintaining collateral. The BOI retains all rights and risks of ownership during the loan period. During fiscal year 2007, State Street Bank, as custodian, loaned, on behalf of the BOI, certain securities and received U.S. dollar currency cash, U.S. government and government sponsored securities, U.S. corporate debt securities, supranational agencies debt, asset backed securities and irrevocable bank letters of credit. State Street Bank does not have the ability to pledge or sell collateral securities unless the borrower defaults. The BOI did not impose any restrictions during fiscal year 2007 on the amount of the securities that State Street Bank could loan. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal year 2007. Moreover, there were no losses during fiscal year 2007 resulting from a default of the borrowers or State Street. During fiscal year 2007, the BOI and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the BOI's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the BOI could not determine. At year-end, the BOI had no *Credit Risk* exposure to borrowers because the amounts the BOI owes the borrowers exceed the amounts the borrowers owed. For MDEP as of June 30, 2007, the fair value of the underlying securities on loan was $167.7 million. The cash collateral provided for the securities on loan totaled $169 million. For RFBP as of June 30, 2007, the fair value of the underlying securities on loan were $612.2 million. The cash collateral provided for the securities on loan totaled $87 million in cash and $538 million in securities collateral. For MTIP as of June 30, 2007, the fair value of the underlying securities on loan were $45.5 million. The cash collateral provided for the securities on loan totaled $145.7 million.

Fixed Investments for the 401(a) and 457 are administered through outside vendors Pacific Investment Management Company (PIMCO) and custodial bank State Street Bank Kansas City (SSKC). The fixed investment option guarantees both principal (the deferred salary) and a quarterly rate of return. The fixed investment option requires the services of two external providers who were selected through the State's competitive bidding process. The external providers are Aegon and PIMCO. Aegon provides a guarantee of principal for the fixed investments and sets a quarterly rate of return based upon the investment manager's portfolio yield and duration. PIMCO, the investment manager, directs the investment of fixed investments.

The PERS-DCRP fixed investments are invested in a PIMCO Moderate Duration mutual fund. This mutual fund is separately managed by PIMCO and is benchmarked against the Lehman Intermediate Government/Credit/Yankee index with a duration not to exceed four years. The minimum average portfolio quality must be an A-rating; the minimum issue quality must be a BB-rating and the minimum commercial paper quality must be A2/P2. The quality ratings applied are the higher of Moody's, Standard & Poor or Fitch. PIMCO has the discretion to invest in a broad array of public and private asset classes and investment vehicles including: money market instruments; U.S. Treasury and Agency notes and bonds; municipal bonds; corporate securities; Yankee and Euro bonds; mortgage-backed securities; mortgage derivatives; asset-backed securities; convertible securities; non-U.S. dollar denominated securities; non-leveraged structured notes; futures; options; swaps; credit default swaps; emerging market securities; and PIMCO pooled funds. All investments, including those with derivative characteristics, are reported at fair value. PIMCO may not invest in: caps and floors; preferred stock; event-linked bonds; and bank loans. *Concentration of Credit Risk* is not applicable.

Variable Investments for the 401(a) and 457 are held and managed by a selection of retail and institutional mutual funds, which cover all standard asset classes and categories. The selection of offered mutual funds is designed to provide participants with the ability to diversify and meet their individual investment goals and strategies. The PERB, with the advice of the statutorily created Employee Investment Advisory Council and the assistance of an independent contracted third-party consultant and investment analyst, conducts an annual review of the offered mutual funds. The goal of the annual review is to ensure the offered mutual funds meet standards established in the Investment Policy Statement adopted by the

PERB. The investment policy states that “Participants make individual investment decisions, subject to the investments offered under the plan and, ultimately, bear the risks and rewards of investment returns.” In the annual review, each investment alternative is compared to its peers and the appropriate benchmark. In addition, each investment alternative is reviewed for other indicators including, but not limited to, style drift, duplication, and fund manager or other organizational changes. Investment alternatives that are determined to have a sub-standard performance rating or other negative indicators may be recommended for probation or termination. During the annual review, the PERB may decide to retain, replace or place in a probation status, any of the offered mutual funds. *Concentration of Credit Risk* is not addressed in the investment policy and investments in mutual funds are not required to be disclosed.

Investments are reported at fair value as of June 30, 2007. Available mutual funds are listed on pages 72, 75 or a listing can be obtained by contacting MPERA.

B. Litigation

Each of the plans administered by the PERB may be involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management and legal counsel, the disposition of those matters will not have a material, adverse affect on any plans’ financial position as a whole.

A lawsuit, ***Baumgardner v. PER Board*** (Cause No. ADV-2002-450, First Judicial District), was filed challenging the constitutionality of that portion of Chapter 149, L. of 2001 which, in the definition of “actuarial equivalent”, substituted "the mortality table and interest rate assumptions adopted by the Board" for "the 1971 Group Annuity Mortality Table, with ages set back 4 years and an interest rate of 8% compounded annually". This amendment was effective March 29, 2001. Subsequent to the legislation, effective July 1, 2001, the PERB adopted new actuarial assumptions, including new mortality tables, resulting in new actuarial equivalent option factors. The legal challenge was the use of these new actuarial equivalent option factors in determining the actuarial equivalent benefit payout when a single life benefit is converted to an alternate form of benefit payment. The plaintiff was seeking recalculation of benefit payments and attorney’s fees. The action was filed by a PERS member, but was certified as a class action lawsuit and could have affected other systems where members have the option to choose a benefit payment other than for the member’s life only.

Three constitutional claims were made: 1) that the legislation contained more than one subject matter, not properly reflected in the title; 2) that the legislation was an unconstitutional delegation of legislative authority; and 3) that the legislation constituted an unconstitutional impairment of contract. The District Court dismissed the first claim; found in favor of the plaintiff on the second claim; and did not initially rule on the third claim. The Montana Supreme Court (Cause No. 04-861) reversed the District Court’s ruling on the second issue, and the case was returned to the District Court on remittitur. The Plaintiff requested amendments to his complaint alleging two additional claims, violation of equal protection and noncompliance with the Montana Administrative Procedure Act in the adoption of the new option factors. The District Court denied the plaintiff's request to amend his complaint.

Trial on the third issue was held in November, 2006. The District Court found in the Board's favor, holding that the legislation did not unconstitutionally impair the plaintiffs' contract regarding retirement benefits. Judgment was entered in the Board's favor. The plaintiffs did not appeal the District Court's judgment. The judgment in the Board's favor is now final. No actuarial impact, material or otherwise, resulted from this determination.

Bean, et al v. Montana and MPERA (Cause No. ADV-2004-707, First Judicial District) challenges the constitutionality of Chapter 290, L. of 2001 which allowed firefighters hired by the Montana Air National Guard on or after October 1, 2001 to join the Firefighters' Unified Retirement System (FURS) rather than the Public Employees' Retirement System (PERS). Plaintiffs, hired before October 1, 2001, claim the law is a violation of equal protection and seek coverage under FURS. A counterclaim seeks proper FURS employee contributions from plaintiffs if they are determined to be covered by FURS. Cross motions for summary judgment were filed, following which District Judge Dorothy McCarter determined that the legislation violates the equal protection clause of the constitution and awarded attorney fees to plaintiffs. The matter has been appealed to and briefed before the Montana Supreme Court. If the lower court's decision stands, and the statute is in fact unconstitutional, members hired on or after October 1, 2001 may be moved to PERS. Meanwhile, "new" members remain in FURS and members hired prior to October 1, 2001 remain in PERS. The actuarial impact on the PERS and FURS has not been determined. However, a material actuarial impact of an adverse decision is remote.

Internal Revenue Service Voluntary Correction Program VCP Filing (September 7, 2005). MPERA has identified an employer who has claimed as compensation the amounts paid for group insurance that were not paid by employees through a properly administered IRC Section 125 plan. This procedure was used for the employer's PERS, MPORS, and FURS contributions for a number of years. The identified employer has proposed a self-correction plan for its Section 125 plan which, if acceptable to the IRS and applied to all affected employers, would settle the issue without unanticipated financial consequences to the pension funds. Acceptance by the IRS is pending.

The PERB filed a Voluntary Correction Program (VCP) Filing with the IRS, seeking approval of the PERB's related rules and policies, and approval of the PERB's acceptance of the employer's self-correction plan. The IRS has voiced acceptance of the PERB's proposal for all individuals other than highly compensated employees (HCEs). The PERB has acquiesced to correcting the reporting error with respect to the one HCE, and is awaiting IRS approval. Meanwhile, MPERA is working with the Montana Department of Revenue's Local Government auditors to include IRC Section 125 plan issues in that Department's random audits to avoid future issues. Given the IRS's tentative approval of the PERB's VCP, the probability of a net material, adverse effect on any plan's financial position as a whole is remote.

Montana Police Protective Association (MPPA) v. Public Employees' Retirement Board (Cause No. BDV 2007-852) challenges the Board's decision to refuse to supply the MPPA with member-specific information from the Municipal Police Officer's Retirement System (MPORS). The MPPA seeks to use the information to have an actuary review the conclusions of the Board's actuary regarding the MPORS Deferred Retirement Option Plan (DROP) structure. The Board determined the members' privacy interests outweighed the merits of public disclosure in this case. The MPPA alleges that the Board's decision is a violation of Montana's open records laws and seeks a declaration that the Board cannot withhold that information and an order directing the Board to disclose that information. The MPPA also requests an award of costs and attorney's fees. The probability of the MPPA prevailing is uncertain due to the lack of directly-applicable precedent. The potential actuarial impact to the MPORS that could be directly associated with a decision in the MPPA's favor would be minimal.

C. Debt Obligation

The PERS defined contribution retirement plan had an implementation loan through the Department of Administration, with the BOI. Authorization for the INTERCAP loan was provided by the Legislature, Chapter 471, Laws of 1999. Five draws were taken in the total amount of $1,498,000. Interest repayment began immediately following the draws. Principal repayment began August 15, 2003, the year following the DCRP implementation date. The loan was renegotiated as a single sum in fiscal year 2004 to be repaid over a period of 15 years. The variable interest rate changed every February, and would impact the interest due on the outstanding principal balance. On May 8, 2007, the loan was paid in full in the amount of $1,375,015. This appropriation of general funds was due to the passage of House Bill 125 during the 2007 Legislative Session.

D. Plan membership, descriptions and contribution information

The plans are established and amended statutorily by the Legislature. In all defined benefit plans (except VFCA), if a member leaves covered employment before retirement, the member contributions plus accrued interest may be refunded to the member. If a member returns to service and repays the withdrawn contributions plus the interest the contributions would have earned had they remained on deposit, membership service is restored. Membership of each plan as of June 30, 2007 and June 30, 2006 is detailed in the charts on the following pages:

PERS-DBRP Membership

	2007	2006		2007	2006
Number of participating employers	528	524			
Active plan members	27,977	27,962	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	15,488	14,988
Vested	2,576	2,530	Disability Retirements	316	342
Non-vested	6,401	7,178	Survivor Benefits	333	324
	8,977	9,708		16,137	15,654

JRS Membership

	2007	2006		2007	2006
Number of participating employers	1	1			
Active plan members	51	50	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	49	49
Vested	5	3	Disability Retirements	-	-
Non-vested	-	-	Survivor Benefits	2	2
	5	3		51	51

HPORS Membership

	2007	2006		2007	2006
Number of participating employers	1	1			
Active plan members	204	197	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	267	265
Vested	14	13	Disability Retirements	7	7
Non-vested	8	11	Survivor Benefits	10	10
	22	24		284	282

SRS Membership

	2007	2006		2007	2006
Number of participating employers	57	57			
Active plan members	1,076	1,006	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	334	313
Vested	38	39	Disability Retirements	35	33
Non-vested	120	102	Survivor Benefits	15	15
	158	141		384	361

GWPORS Membership

	2007	2006		2007	2006
Number of participating employers	7	7			
Active plan members	821	793	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	107	102
Vested	35	30	Disability Retirements	1	1
Non-vested	91	81	Survivor Benefits	3	3
	126	111		111	106

MPORS Membership

	2007	2006		2007	2006
Number of participating employers	23	22			
Active plan members	640	617	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	549	538
Vested	37	29	Disability Retirements	14	14
Non-vested	38	40	Survivor Benefits	29	28
	75	69		592	580

FURS Membership

	2007	2006		2007	2006
Number of participating employers	17	17			
Active plan members	480	467	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	490	480
Vested	9	10	Disability Retirements	6	6
Non-vested	52	64	Survivor Benefits	23	23
	61	74		519	509

VFCA Membership

	2007	2006		2007	2006
Number of participating companies	193	192			
Active plan members	2,207	2,733	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits			Service Retirements	1,033	994
Vested	800	687	Disability Retirements	-	-
			Survivor Benefits	5	7
				1,038	1,001

PERS-DCRP Membership

	2007	2006		2007	2006
Number of participating employers	237	229			
Active plan members	1,563	1,362	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Benefit Payments	3	2
Vested	108	95	Disability Payments	-	-
Non-vested	239	182	Survivor Payments	-	-
	347	277		3	2

Deferred Compensation (457) Membership

	2007	2006		2007	2006
Number of participating employers	16	12	Number of participating plan members	7,930	7,935
Number of participating employers that provide contributions on members' behalf	2	1	Number of participating plan members that are actively contributing to their deferred compensation accounts	5,348	5,357

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Public Employees' Retirement System-DBRP (PERS-DBRP)

Plan Description: The PERS-Defined Benefit Retirement Plan (DBRP) is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). This plan covers the State, local governments and certain employees of the university system and school districts.

All new hires are initially members of the PERS-DBRP. New hires have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP. Members may not be members of both the *defined benefit* and *defined contribution* retirement plans. The choice is irrevocable. All new hires of the universities also have a third option to join the university system's Optional Retirement Program (ORP). For members that choose to join the PERS-DCRP or the ORP, a percentage of the employer contribution will be used to maintain the funding of the PERS-DBRP.

The PERS-DBRP provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature. Benefits are based on eligibility, years of service and highest average compensation. Member rights are vested after five years of service. A brief summary of eligibility and benefits follows:

PERS-DBRP Summary of Benefits

Member's highest average compensation (HAC)
Highest average compensation during any consecutive 36 months

Eligible for benefit
Service retirement:
30 years of membership service, any age;
Age 60, 5 years of membership service; or
Age 65, regardless of service
Early retirement, actuarially reduced:
Age 50, 5 years of membership service; or
Any age, 25 years of membership service

Vesting 5 years of membership service

Monthly benefit formula
Less than 25 years of membership service: 1.785% of HAC per year of service credit;
25 years of membership service or more: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)
After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit

- 3% for members hired before July 1, 2007
- 1.5 % for members hired on or after July 1, 2007

At June 30, 2007 PERS had 528 participating employers, an increase of four from FY2006. The participating employers consist of:

PERS-DBRP EMPLOYERS

Employers	June 30, 2007	June 30, 2006
State Agencies	36	36
Counties	55	55
Cities and Towns	96	94
Colleges and Universities	5	5
School Districts	232	233
High Schools	6	6
Other Agencies	98	95
Total	528	524

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2007 was 6.9% of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a request for retirement or refund is processed. Each state agency and university system employer contributed 6.9% of PERS-covered payroll during fiscal year 2007. Participating local governments and school district employers contributed 6.8% of PERS-covered payroll during fiscal year 2007. The State contributed the remaining 0.1% for local governments and school district employers from the state general fund. A percentage of the employers' contributions is used to fund the employee education program. (Reference Schedule of Contribution Rates on page 78).

Effective July 1, 2007, the employer contribution rates will increase. This increase is due to the passage of House Bill 131 during the 2007 Legislative Session. Employer contribution rates for State and University employers increased by 0.135% making the total contribution rate 7.035%. Local Government (except school districts) employer rates increased by 0.135%, making a total contribution rate of 6.935%. State contribution rates for School District employers increased by 0.135%, making a total contribution of 0.235%.

Plan Membership Elections: MPERA has included in the financial statements transfers of $1,209,017 to Transfers to DCRP and

PERS-DBRP Active Membership by Employer Type

Employer Type	June 30, 2007	June 30, 2006
State Agencies	10,727	10,607
Counties	5,137	5,225
Cities	3,122	3,061
Universities	2,603	2,615
High Schools	61	66
School Districts	5,200	5,258
Other Agencies	1,127	1,130
Total	27,977	27,962

$211,020 to Transfers to ORP. These transfers reflect the DCRP and ORP contributions of participants that filed elections at or near the June 30 cutoff date. The contributions were transferred in early fiscal year 2008.

Additional Service Purchase: A provision (section 19-2-706, MCA) related to the Employee Protection Act allows state and university system employees, who are eligible for a service retirement and whose positions have been eliminated, to have their employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. The total number of participants increased at the end of fiscal year 2007. The employees participating under HB567 increased from 165 in fiscal year 2006 to 177 in fiscal year 2007. The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. The retirement incentive contributions received (including interest) during fiscal year 2007 totaled $174,002. The outstanding balance at June 30, 2007, totaled $42,865.

Public Employees' Retirement System-DBRP Education Fund: Education is provided to all members of the PERS regardless of plan choice as governed by section 19-3-112, MCA. The education must be presented with impartial and balanced information about plan choices, investments and retirement planning.

The education program consists of three primary components:

1) initial transfer education — complete as of July 1, 2003.
2) ongoing transfer education — for new hire members after the July 1, 2002 plan start date; and
3) ongoing investment/retirement planning education — for all active members.

The education program was funded by 0.04% of PERS-covered payroll in fiscal year 2007.

Actuarial Status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the Normal Cost Rate plus an amortization payment of the Unfunded Actuarial Liability, if any, over no more than 30 years. Based on the current Actuarial Value of Assets and all future experience emerging as assumed, the Unfunded Actuarial Liability will be amortized over the next 21.9 years. This amortization period does not reflect the sunset provisions for the additional contributions under HB 131 or the reduced guaranteed annual benefit adjustment. Without the additional contributions effective July 1, 2007 and July 1, 2009, the amortization period for the Unfunded Actuarial Liability would be 25.3 years. At June 30, 2006, the plan did not amortize over 30 years.

Judges' Retirement System (JRS)

Plan Description: The JRS is a single-employer defined benefit plan established in 1967, and governed by Title 19, chapters 2 & 5 of the MCA. This system provides benefits for all Montana judges of the district courts, justices of the Supreme Court, and the Chief Water Judge. Benefits are established by state law and can only be amended by the Legislature. The JRS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and compensation. Member rights are vested after five years of service. A brief summary of eligibility and benefits is on the following page:

JRS Summary of Benefits

Member's current salary[1] or highest average compensation (HAC)[2]
[1]Hired prior to July 1, 1997 and non-GABA prior to January 1, 1988 or December 1, 2005 — monthly compensation at time of retirement;
[2]Hired after June 30, 1997 or electing GABA prior to January 1, 1988 or December 1, 2005 — HAC during any consecutive 36 months

Eligibility for benefit
Age 60, 5 years of membership service;
Any age with 5 years of membership service — involuntary termination, actuarially reduced

Vesting 5 years of membership service

Monthly benefit formula
3.333% of current salary[1] (non-GABA) OR HAC[2] (GABA) per year of service credit for the first 15 years, plus 1.785% per year for each year after 15 years

Guaranteed Annual Benefit Adjustment (GABA)
Hired after July 1, 1997, or those electing GABA — after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.

Minimum benefit adjustment (non-GABA)
Hired prior to July 1, 1997 — current salary of an active member is used in the calculation of the monthly benefit each time the Legislature increases salaries for active judges.

At June 30, 2007 JRS had one participating employer, the same as FY2006. The participating employer consists of:

JRS EMPLOYERS

Employer	June 30, 2007	June 30, 2006
State Agency — Supreme Court	1	1
Total	1	1

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2007 was 7.0% of the member's monthly compensation. Contributions are deducted from each member's salary and remitted by the participating employer. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed. As the employer, the State contributed 25.81%

of the total JRS-covered payroll to the retirement plan during fiscal year 2007. (Reference Schedule of Contribution Rates on page 78).

JRS Active Membership by Employee Type		
Employee Type	June 30, 2007	June 30, 2006
GABA	37	27
Non-GABA	14	23
Total	51	50

Highway Patrol Officers' Retirement System (HPORS)

Plan Description: The HPORS is a single-employer, defined benefit plan established July 1, 1971, and governed by Title 19, chapters 2 & 6 of the MCA. This system provides retirement benefits to all members of the Montana Highway Patrol, including supervisory personnel. Benefits are established by state law and can only be amended by the Legislature. The HPORS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and highest average compensation. Member rights are vested after five years of service. A brief summary of eligibility and benefits follows:

HPORS Summary of Benefits

Member's highest average compensation (HAC)
Highest average compensation during any consecutive 36 months

Eligibility for benefit
20 years of membership service, regardless of age

Early Retirement
5 years of membership service, actuarially reduced from age 60

Vesting 5 years of membership service

Monthly benefit formula
2.5% of HAC per year of service credit

Guaranteed Annual Benefit Adjustment (GABA)
Hired after July 1, 1997, or those electing GABA — after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.

Minimum benefit adjustment (non-GABA)
Hired prior to July 1, 1997 — monthly benefits for non-GABA members are increased each July when they fall below a statutorily guaranteed minimum. Any annual increase is limited to 5% over the current benefit and may not exceed 60% of the current base salary of a probationary officer.

At June 30, 2007 HPORS had one participating employer, the same as FY2006. The participating employer consists of:

HPORS EMPLOYERS

Employer	June 30, 2007	June 30, 2006
State Agency — Department of Justice	1	1
Total	1	1

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rates for fiscal year 2007 is 9.05% of the member's total compensation if hired after June 30, 1997 or for members electing GABA and 9.0% for those members hired prior to July 1, 1997 and not electing GABA (all active members hired prior to July 1, 1997 have elected the GABA). Contributions are deducted from each member's salary and remitted by the participating employer. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed. As the employer, the State contributed 36.33% of the total HPORS-covered payroll during fiscal year 2007. The first 26.15% is payable from the same source used to pay members' compensation. The remaining amount, equal to 10.18%, is payable from a portion of the fees collected from drivers' license and duplicate drivers' license applications. (Reference Schedule of Contribution Rates on page 78).

HPORS Active Membership by Employee Type

Employee Type	June 30, 2007	June 30, 2006
GABA	204	197
Non-GABA	0	0
Total	204	197

Additional Service Purchase: A provision (section 19-2-706, MCA) related to the Employee Protection Act allows state and university system employees, who are eligible for a service retirement and whose positions have been eliminated, to have their employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. No employees have taken advantage of this provision to date.

Supplemental Benefit for Retirees: A provision (section 19-6-709, MCA) provides eligible Montana highway patrol officers retired prior to July 1, 1991, or their survivors, an annual supplemental lump-sum payment distributed each September. This lump-sum payment is funded by registration fees requested by the PERB from the general fund. Factors impacting eligibility include the number of years the recipient has received a service retirement benefit or disability benefit, the recipient's age, and whether the recipient is employed in a position covered by a retirement system under Title 19. The average annual supplemental payment for non-GABA retirees was $2,518 in September 2007.

Sheriffs' Retirement System (SRS)

Plan Description: The SRS is a multiple-employer, cost-sharing defined benefit plan established July 1, 1974, and governed by Title 19, chapters 2 & 7, MCA. This plan provides retirement benefits to all Department of Justice criminal investigators hired after July 1, 1993, all detention officers hired after July 1, 2005, and to all Montana sheriffs and detention officers. Benefits are established by state law and can only be amended by the Legislature. The SRS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and highest average compensation. Member rights are vested after five years of service. A brief summary of eligibility and benefits follows:

SRS Summary of Benefits

Member's highest average compensation (HAC)
Highest average compensation during any consecutive 36 months

Eligibility for benefit
20 years of membership service, regardless of age

Early Retirement
Age 50, 5 years of membership service, actuarially reduced

Vesting 5 years of membership service

Monthly benefit formula
2.5% of HAC per year of service credit

Guaranteed Annual Benefit Adjustment (GABA)
After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit

- 3% for members hired before July 1, 2007
- 1.5% for members hired on or after July 1, 2007

At June 30, 2007 SRS had 57 participating employers, the same as FY2006. The participating employers consist of:

SRS EMPLOYERS

Employers	June 30, 2007	June 30, 2006
State Agencies — Department of Justice	1	1
Counties	56	56
Total	57	57

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2007 was 9.245% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed. Each employer contributed 9.535% of total SRS-covered payroll to the retirement plan during fiscal year 2007. (Reference Schedule of Contribution Rates on page 78).

Effective July 1, 2007, the employer rate was increased by 0.29% to 9.825%. This increase is due to the passage of House Bill 131 in the 2007 Legislative Session.

SRS Active Membership by Employer Type

Employer Type	June 30, 2007	June 30, 2006
Dept of Justice	43	46
Counties	1,033	960
Total	1,076	1,006

Additional Service Purchase: A provision (section 19-2-706, MCA) related to the Employee Protection Act allows state employees, who are eligible for a service retirement and whose positions have been eliminated, to have their employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. Three employees have taken advantage of this provision to date.

Actuarial Status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the Normal Cost Rate plus an amortization payment of the Unfunded Actuarial Liability, if any, over no more than 30 years. Based on the current Actuarial Value of Assets and all future experience emerging as assumed, the Unfunded Actuarial Liability will be amortized over the next 19.6 years. This amortization period does not reflect the sunset provisions for the additional contributions under HB 131 or the reduced guaranteed annual benefit adjustment. Without the additional contributions effective July 1, 2007 and July 1, 2009, the amortization period for the Unfunded Actuarial Liability would be 31.4 years. On June 30, 2006 the plan did not amortize under the 30 years.

Game Wardens' and Peace Officers' Retirement System (GWPORS)

Plan Description: The GWPORS is a multiple-employer, cost-sharing defined benefit plan established in 1963 and governed by Title 19, chapters 2 & 8, MCA. This system provides retirement benefits to all persons employed as a game warden, warden supervisory personnel, or state peace officer. Benefits are established by state law and can only be amended by the Legislature. The GWPORS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and highest average compensation. Member rights are vested after five years of service. A brief summary of eligibility and benefits follows on top of the next page:

GWPORS Summary of Benefits

Member's highest average compensation (HAC)
Highest average compensation during any consecutive 36 months

Eligibility for benefit
Age 50, 20 years of membership service

Early Retirement
Age 55, 5 years of membership service

Vesting 5 years of membership service

Monthly benefit formula
2.5% of HAC per year of service credit

Guaranteed Annual Benefit Adjustment (GABA)
After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit

- 3% for members hired before July 1, 2007
- 1.5% for members hired on or after July 1, 2007

At June 30, 2007 GWPORS had seven participating employers, the same as FY2006. The participating employers consist of:

GWPORS EMPLOYERS

Employers	June 30, 2007	June 30, 2006
State Agencies	4	4
Colleges and Universities	3	3
Total	7	7

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2007 was 10.56% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed. Each state agency and university employer contributed 9.0% of total GWPORS-covered payroll to the retirement plan during fiscal year 2007. (Reference Schedule of Contribution Rates on page 78).

GWPORS Active Membership by Employer

Employer	June 30, 2007	June 30, 2006
Dept of Corrections	575	576
Dept FW&P	106	94
Dept of Livestock	28	29
Dept of Trans.	80	69
Universities	32	25
Total	821	793

Additional Service Purchase: A provision (section 19-2-706, MCA) related to the Employee Protection Act allows state and university system employees, who are eligible for a service retirement and whose positions have been eliminated, to have their employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. No employees have taken advantage of this provision to date.

Actuarial Status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the Normal Cost Rate plus an amortization payment of the Unfunded Actuarial Liability, if any, over no more than 30 years. Based on the current Actuarial Value of Assets and all future experience emerging as assumed, the Unfunded Actuarial Liability will be amortized over the next 11.3 years. This amortization period does not reflect the reduced guaranteed annual benefit adjustment under House Bill 131. As of June 30, 2006, the amortization period for the Unfunded Actuarial Liability was 32.4 years.

Municipal Police Officers' Retirement System (MPORS)

Plan Description: The MPORS is a multiple employer, cost-sharing defined benefit plan established in 1974 and is governed by Title 19, chapters 2 & 9 of the MCA. This plan covers all municipal police officers employed by first- and second-class cities and other cities that adopt the plan. Benefits are established by state law and can only be amended by the Legislature. The MPORS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and compensation. Member rights for death and disability are vested immediately. All other rights are vested after five years of service. A brief summary of eligibility and benefits follows on the top of the next page:

MPORS Summary of Benefits

Member's final average compensation (FAC)
Hired prior to July 1, 1977 — average monthly compensation of final year of service;
Hired after June 30, 1977 — final average compensation (FAC) for last consecutive 36 months

Eligibility for benefit
20 years of membership service, regardless of age

Early Retirement
Age 50, 5 years of membership service

Vesting 5 years of membership service

Monthly benefit formula
2.5% of FAC per year of service credit

Guaranteed Annual Benefit Adjustment (GABA)
Hired after June 1, 1997, or those electing GABA — after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.

Minimum benefit adjustment (non-GABA)
If hired before July 1, 1997 and member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than ½ the compensation of a newly confirmed officer in the city where the member was last employed.

At June 30, 2007 MPORS had 23 participating employers, one more than FY2006. The participating employers consist of:

MPORS EMPLOYERS

Employers	June 30, 2007	June 30, 2006
Cities and Towns	23	22
Total	23	22

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. Member contribution rates are dependent upon date of hire as a police officer. For fiscal year 2007, member contributions as a percentage of salary were 5.8% (if employed on or before June 30, 1975); 7.0% (if employed after June 30, 1975 and prior to July 1, 1979); 8.5% (if employed after June 30, 1979 and prior to July 1, 1997); and, 9.0% (if employed on or after July 1, 1997 and for members electing GABA). Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed. Employer contributions to the retirement plan are 14.41% of total MPORS-covered payroll. The State contributions are requested at the beginning of the fiscal year based on the previous fiscal year compensation and are due no later than November 1. The State's contribution rate for 2007 was 29.37%. (Reference Schedule of Contribution Rates on page 78).

MPORS Active Membership by Employee Type

Employee Type	June 30, 2007	June 30, 2006
GABA	630	605
Non-GABA	10	12
Total	640	617

Deferred Retirement Option Plan (DROP): Beginning July 2002, eligible members of MPORS can participate in the DROP by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, chapter 9, part 12, MCA. A member must have completed at least twenty years of membership service to be eligible. They may elect to participate in the DROP for a minimum of one month and a maximum of 60 months and may participate in the DROP only once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During the participation in the DROP, all mandatory contributions continue to the retirement system. A monthly benefit is calculated based on salary and years of service to the date of the beginning of the DROP period. The monthly benefit is paid into the members' DROP account until the end of the DROP participation period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated. As of June 30, 2007, a total of 60 members have participated in the DROP.

DROP Participation

	6/30/2007	6/30/2006
Participants Beginning of Year	38	35
Participants Added	6	6
Completed DROP	5	3
Participants End of Year	39	38
DROP Distributions	$501,730	$233,615

Firefighters' Unified Retirement System (FURS)

Plan Description: The FURS is a multiple-employer, cost-sharing defined benefit plan established in 1981, and governed by Title 19, chapters 2 & 13, MCA. This system provides retirement benefits to firefighters employed by first- and second-class cities and other cities that adopt the plan, and subject to the Montana Air National Guard (MANG) lawsuit, to firefighters hired by the MANG on or after October 1, 2001. Benefits are established by state law and can only be amended by the Legislature. The FURS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and compensation. Member rights are vested after five years of service. A brief summary of eligibility and benefits follows on top of the next page:

FURS Summary of Benefits

Member's compensation
Hired prior to July 1, 1981 and not electing GABA — highest monthly compensation (HMC); Hired after June 30, 1981 and those electing GABA — highest average compensation (HAC) during any consecutive 36 months

Eligibility for benefit
20 years of membership service, regardless of age

Early Retirement
Age 50, 5 years of membership service

Vesting 5 years of membership service

Monthly benefit formula
Members hired prior to July 1, 1981 and not electing GABA are entitled to the greater of:
2.5% of HAC per year of service; OR
i) if less than 20 years of service, —
2% of HMC for each year of service;
ii) if more than 20 years of service —
50% of the member's HMC plus 2% of the member's HMC for each year of service over 20 years
Members hired after June 30, 1981 and those electing GABA:
2.5% of HAC per year of service

Guaranteed Annual Benefit Adjustment (GABA)
Hired after July 1, 1997, or those electing GABA — after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.

Minimum benefit adjustment (non-GABA)
If hired before July 1, 1997 and member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than ½ the compensation of a newly confirmed firefighter employed by the city that last employed the member (provided the member has at least ten years of service credit).

At June 30, 2007 FURS had 17 participating employers, the same as FY2006. The participating employers consist of:

FURS EMPLOYERS

Employers	June 30, 2007	June 30, 2006
State Agencies - Department of Military Affairs	1	1
Cities and Towns	16	16
Total	17	17

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rates for fiscal year 2007 are 9.5% for members hired prior to July 1, 1997, and 10.7% for members hired after June 30, 1997 and members electing GABA coverage. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed. Employer contribution rates for fiscal year 2007 were 14.36% of the total FURS-covered payroll. The State contribution was 32.61% of total compensation for all covered firefighters in fiscal year 2007. State contributions are requested at the beginning of each fiscal year based on previous fiscal year salary and are due no later than November 1. (Reference Schedule of Contribution Rates on page 78).

FURS Active Membership
by Employee Type

Employee Type	June 30, 2007	June 30, 2006
GABA	474	460
Non-GABA	6	7
Total	480	467

Additional Service Purchase: A provision (section 19-2-706, MCA) related to the Employee Protection Act allows state and university system employees, who are eligible for a service retirement and whose positions have been eliminated, to have their employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. No employees have taken advantage of this provision to date.

Volunteer Firefighters' Compensation Act (VFCA)

Plan Description: The VFCA is a statewide retirement and disability plan. This compensation plan was established in 1965 and is governed by Title 19, chapter 17, MCA. All members are unpaid volunteers and the State of Montana is the only contributor to the plan. Benefits are established by state law and can only be amended by the Legislature. The VFCA provides pension, disability and survivorship benefits for all volunteer firefighters who are members of qualified volunteer fire companies in unincorporated areas, towns or villages under the laws of the State of Montana. Benefits are based on eligibility and years of service. Member rights are vested after ten years of credited membership service. VFCA also provides limited benefits for death or injuries incurred in the line of duty.

A member can obtain greater than 20 years of service and when the member retires, a benefit can be drawn on the increased years of service. The maximum years of service allowed is 30 years. For each additional year of service the member's monthly benefit is increased by $7.50.

A member that chooses to retire and draw a pension benefit may return to service with the volunteer fire department without loss of benefits. A returning retired member may not be considered an active member accruing service credit. A brief summary of eligibility and benefits follows on top of the next page:

VFCA Summary of Benefits

Eligibility for benefit
Age 55, 20 years of service credit;
Age 60, 10 years of service credit

Additional Benefit
After April 25, 2005, members that have greater than 20 years of service credit (with a maximum of 30 years) may receive additional benefits (maximum benefit $225).

Vesting 10 years of service credit

Monthly benefit formula
$7.50 per year of service credit, maximum $225 (no more than 30 years)

Contributions: The State is the only contributor to the VFCA. Contributions are 5% of fire insurance premium taxes collected on certain fire risks. The State Auditor makes annual payments from the general fund to the Volunteer Firefighters' Pension Fund from fire insurance premiums. (Reference Schedule of Contribution Rates on page 78).

Group Insurance Payments: Supplemental payments are available to qualified volunteer fire companies that provide additional group medical insurance for their members in case of death or injury incurred while in the line of duty. The payment is made to the volunteer fire companies and is equal to $75 per year for each mobile firefighting unit owned by the volunteer fire company, up to a maximum of two units.

Public Employees' Retirement System-DCRP (PERS-DCRP)

Plan Description: The defined contribution retirement plan (DCRP) is a multiple employer plan established July 1, 2002 and governed by Title 19, chapters 2 & 3, MCA. This plan is available to eligible employees of the State, university system, local governments and school districts. All new PERS members are members of the PERS-DBRP. They have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the PERS-DBRP. The choice is irrevocable. Members may not be members of both the PERS-DCRP and PERS-DBRP retirement plans. The PERS-DCRP provides retirement, disability and death benefits to participants and their beneficiaries. Contribution rates can only be amended by the Legislature. Benefits are based on eligibility and account balance.

The PERB received a long-term INTERCAP loan from the Montana Board of Investments through the Montana Department of Administration to fund the DCRP's implementation costs. Authorization for the loan was provided by the Legislature, Chapter 471, Laws of 1999. As of June 30, 2004, all of the draws were combined into one loan and the maturity date extended to February 2018. The 2007 Legislature passed HB 125 which appropriated funds to pay-off the loan. Consequently, the loan was paid-off on May 8, 2007. The loan is discussed in Note C of the *Financial Section* of this report on page 51.

The investment options offered are selected by the PERB in compliance with their Investment Policy Statement and with the assistance of the statutorily-created Employee Investment Advisory Council and the advice of a third-party consultant. Participants of the DCRP direct their contributions and a portion of their employer's contributions among the offered investment options. The remaining portion of employer's contributions is used to reduce the Plan Choice Rate unfunded actuarial liability, to fund the long-term disability benefits to participants of the DCRP and to fund an employee education program. Participants may invest in any or all of the offered options and transfer between options on a daily basis, if desired.

The offered investment options fall into two primary types: (1) the fixed investment option and (2) the variable investment options. The variable investment options include mutual funds and bond funds. All options range from aggressive to conservative. The mutual funds cover all standard asset classes and categories. The investment options as of June 30, 2007 are as follows:

PERS-DCRP Investment Options

International Stock Funds
American Funds New Perspective
SSGA International Growth Opportunities
Oakmark International
Barclay's Global Equity Index

Small Company Stock Funds
Manager AMG Essex
Vanguard Small Cap Index Adm
Hotchkis & Wiley Small Cap Value

Mid-Sized Company Stock Funds
Munder Mid-Cap Select
Janus Mid Cap Value Investors

Large Company Stock Funds
American Funds Growth Fund A
Vanguard Equity-Income Adm
Vanguard Growth & Income Adm

Balanced Funds
Vanguard Balanced Index

Bond Funds
Vanguard Total Bond Market Index

Fixed Investment Options
DCRP Fixed Fund

Fixed investment: The fixed investment option guarantees both principal (the deferred salary) and a quarterly rate of return. The fixed investment option requires the services of two external providers who were selected through the State's competitive bidding process. The external providers are Aegon and Pacific Investment Management Company (PIMCO). Aegon provides a guarantee of principal and sets a quarterly rate of return based upon the investment manager's portfolio yield and duration. PIMCO, the investment manager, invests the assets in a PIMCO mutual fund.

Administrative expenses and revenues that fund them are accounted for within the plan. Expenses for the DCRP can generally be classified as 1) administrative (including miscellaneous) or 2) investment management. Following is a summary of all expenses:

Recordkeeping fees: The record keeper, Great West Retirement Services, charges a set administrative fee to all plan participants. On a quarterly basis, the fees are withheld from each plan participant's account.

Mutual fund/variable investments: All of the variable investments have investment management fees; some may have additional administrative fees. These fees are not presented on the financial statements. Mutual fund earnings are declared net of all expenses, both investment management and administrative, in accordance with the Securities and Exchange Commission and other regulatory authorities. Current reporting standards for mutual fund companies do not require costs to be made available in the detailed cost reports.

Fixed investment fees: Fees on the fixed investments are charged by each of the providers, PIMCO and Aegon. The fees are defined per each contract for the specific services. The fixed investment credited rate is declared net of expenses.

PERB administrative fees: MPERA's administrative fee is a basis point (or percent) fee based on account balances. On a quarterly basis, the record keeper withholds the fees from each plan participant's account and submits them to the PERB.

The fees charges by PIMCO are classified as Investment Expense. Because the fees charged by Great West Retirement Services and Aegon are explicit and not net from assets, they are classified as *Miscellaneous Expense.*

A brief summary of eligibility and benefits follows:

PERS-DCRP Summary of Benefits

Eligibility for Benefit
Termination of service

Vesting
Immediate for participant's contributions and attributable income;
5 years for the employer's contributions to individual accounts and attributable income.

Benefit
Dependent upon individual account balance;
Various payout options available including: taxable lump sums; periodic payments per participant direction and IRS permitted rollovers.

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2007 was 6.9% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The entire amount of the member's contribution is credited to the individual account which is maintained by the record keeper. Each state agency and university system employer contributed 6.9% of PERS-covered payroll during fiscal year 2007. Participating local governments and school district employers contribute 6.8% of PERS-covered payroll during fiscal year 2007. The State contributes the remaining 0.1% for local governments and school employers from the state general fund. The employer rate of 6.9% is allocated as follows: 4.19% allocated to the member's retirement account, 2.37% allocated to the defined benefit plan choice rate, 0.04% allocated to defined contribution education fund and 0.3% allocated to the long-term disability plan. (Reference Schedule of Contribution Rates on page 78).

Effective July 1, 2007, the employer contribution rates will increase. This increase is due to the passage of House Bill 131 during the 2007 Legislative Session. Employer contribution rates for State and University employers increased by 0.135% making the total contribution rate 7.035%. Local Government (except school districts) employer rates increased by 0.135%, making a total contribution rate of 6.935%. State contribution rates for School District employers increased by 0.135%, making a total contribution of 0.235%. School District employers rate remains at 6.9%.

Plan Membership Elections: Included in the financial statements are employer contribution transfers of $15,000 and member contribution transfers of $24,000. These transfers reflect the contribution transfers of DCRP participants that filed elections at or near the June 30 cutoff date but the contributions were moved in early fiscal year 2008.

DCRP Education Fund: Implemented July 1, 2002, the DCRP Education Fund (DCEd), as governed by section 19-3-112, MCA, was established to provide funding for the required education programs for the members who have joined the PERS-DCRP. The DCEd is funded by 0.04% of the employers' contributions.

PERS-DCRP Active Membership by Employer Type

Employer Type	June 30, 2007	June 30, 2006
State Agencies	695	579
Counties	290	265
Cities	206	183
Universities	70	57
High Schools	3	2
School Districts	181	172
Other Agencies	118	104
Total	1,563	1,362

DCRP Disability Fund: Implemented July 1, 2002, the DCRP Disability Fund (DC Disability), as governed by section 19-3-2117, MCA, will provide disability benefits to eligible members who have joined the PERS-DCRP. The DC Disability is funded by 0.3% of the employers' contribution.

At June 30, 2007 PERS-DCRP had 237 reporting employers, eight more than in FY2006. The participating employers consist of:

PERS-DCRP EMPLOYERS

Employers	June 30, 2007	June 30, 2006
State Agencies	28	29
Counties	43	43
Cities and Towns	43	41
Universities	5	5
School Districts	81	79
High Schools	3	2
Other Agencies	34	30
Total	237	229

Deferred Compensation Plan (457)

Plan Description: The deferred compensation (457) plan is a voluntary supplemental retirement savings plan established in 1976. The deferred compensation plan is governed by Title 19, chapter 50, MCA, in accordance with Internal Revenue Service Code (IRC) §457. All employees of the State, the Montana University System and contracting political subdivisions are eligible to participate.

Assets of the deferred compensation plan are required to be held in trusts, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries. Great West Retirement Services is the record keeper for the plan. Participants elect to defer a portion of their salary, within Internal Revenue Code limits. The deferred salary is not available to employees until separation from service, retirement, death, or upon an unforeseeable emergency while still employed, provided IRS-specified criteria are met.

Plan participants direct their deferred salary among the offered investment options. The investment options offered are selected by the PERB in compliance with their Investment Policy Statement and with the assistance of the statutorily-created Employee Investment Advisory Council and the advice of a third-party consultant. Participants may invest in all of the offered options and transfer between options on a daily basis, if desired.

The offered investment options fall into two primary types: (1) the fixed investment option and (2) the variable investment options. The variable investment options include mutual funds, bond funds and profile funds. All options range from aggressive to conservative. The mutual funds cover all standard asset classes and categories. The asset allocation funds are preset funds that invest in underlying mutual funds to achieve a set investment objective. The investment options as of June 30, 2007 are as follows:

Deferred Compensation (457) Plan
Investment Options

International Stock Funds
Artisan International
Mutual Discovery Z
Dodge & Cox International
American Funds New Perspective

Small Company Stock Funds
Neuberger Berman Genesis
Manager AMG Essex
Munder Small Cap Value

Mid-Sized Company Stock Funds
Munder Mid-cap Select
Vanquard Small Cap Index
Hotchkis & Wiley Mid-cap Value

Large Company Stock Funds
Davis NY Venture A
Fidelity Contrafund
TCW Galileo Select Equities N
Vanguard 500 Index
Calvert Social Investors

Balanced Funds
Dodge & Cox Balanced

Bond Funds
Neuberger Berman High Income
PIMCO Total Return Admin

Fixed Investment Options
Montana Fixed Fund

Asset Allocation Funds

Moderately Aggressive
Moderate
Conservative

In addition to the investment listed, plan participants previously had the option to direct a portion of their deferrals to a term life insurance policy provided through Allianz Life Insurance. The ability to invest in life insurance is allowed under the IRC and was offered to plan participants prior to life insurance being offered as a standard component of health insurance benefit packages. This investment option has been discontinued; however, plan participants who had previously elected this option may continue.

Fixed investment: The fixed investment option guarantees both principal (the deferred salary) and a quarterly rate of return. The fixed investment option requires the services of three external providers who were selected through the State's competitive bidding process. The external providers are Aegon, Pacific Investment Management Company (PIMCO) and State Street Bank Kansas City (SSKC). Aegon provides a guarantee of principal and sets a quarterly rate of return based upon the investment manager's portfolio yield and duration. PIMCO, the investment manager, directs the investment of the assets. Assets are invested in the bond market in accordance with established guidelines for credit quality, duration and issue concentration. SSKC is PIMCO's custodial bank and holder of the assets. SSKC exchanges the assets as directed by PIMCO.

Administrative expenses and the revenues that fund them are accounted for within the plan. Expenses for the 457 plan can generally be classified as 1) administrative (including miscellaneous) or 2) investment management. Following is a summary of all expenses:

Record keeping fees: The record keeper, Great West Retirement Services, charges a set administrative fee to all plan participants. On a quarterly basis, the fees are withheld from each plan participant's account.

Mutual fund/variable investments fees: All of the variable investments have investment management fees; some may have additional administrative fees. These fees are not presented on the financial statements. Mutual fund earnings are declared net of expenses, both investment management and administrative, in accordance with the Securities Exchange Commission and other regulatory authorities. Current reporting standards for mutual companies do not require costs to be made available in the detailed cost reports.

Fixed investment fees: Fees on the fixed investments are charged by each of the three providers, PIMCO, SSKC and Aegon. The fees are defined per each contract for specific services. The fixed investment credited rate is declared net of expenses.

PERB administrative fees: The PERB also receives 12(b)(1) or re-allotment fees from certain mutual fund companies. These fees are normally charged by the mutual funds for the purpose of individual record keeping. Because the mutual fund companies involved in the deferred compensation plan do not need to keep records of participants' accounts, the fees are returned to the PERB. The PERB uses 12(b)(1) fees to pay administrative expenses associated with the deferred compensation plan. These amounts are recorded as Miscellaneous Revenue.

The fees charged by PIMCO and SSKC for the externally managed fixed investments are classified as *Investment Expense*. Because the fees charged by Great West Retirement Services and Aegon are explicit and not net from assets, they are classified as *Miscellaneous Expense*.

A brief summary of eligibility and benefits follows:

Deferred Compensation Plan Summary

Contribution
Voluntary, tax-deferred

Eligibility of Benefit
Not available to participant until separation from service, retirement, death, or upon an unforeseeable emergency, while still employed, provided IRS-specified criteria are met.

Vesting
Participants are fully vested in their accounts at the time of crediting

Benefit
Lump sum or periodic benefit payment, at the option of the participant. Based on individual account balances and plan provisions. IRS permitted rollovers are also possible.

At June 30, 2007 the deferred compensation plan had 16 participating employers, an increase of four from FY 2006. The participating employers consist of:

DEFERRED COMPENSATION EMPLOYERS

Employers	June 30, 2007	June 30, 2006
State of Montana *	1	1
Counties	2	2
Colleges and Universities	6	6
School Districts	2	1
Cities	2	0
Other	3	2
Total	16	12

*The State of Montana includes 36 agencies; however, due to the nature of the reporting for the 457 plan we are unable to specifically determine which agencies participate.

Contributions: The deferred compensation plan is a voluntary, tax-deferred retirement plan designed to supplement retirement, Social Security and other retirement plans and savings. Participants designate the amount to contribute within IRC limitations.

FY 2007 Schedule of Contribution Rates

System	Member	Employer*	State
PERS-DBRP*	**6.9%** [19-3-315, MCA]	**6.9%** State & University **6.8%** Local Governments [19-3-316, MCA]	**0.1%** of local government payroll – paid from the General Fund [19-3-319, MCA]
PERS-DCRP*	**6.9%** [19-3-315, MCA]	**6.9%** State & University **6.8%** Local Governments [19-3-316, MCA]	**0.1%** of local government payroll – paid from the General Fund [19-3-319, MCA]
JRS	**7.0%** [19-5-402, MCA]	**25.81%** [19-5-404, MCA]	
HPORS	**9.0%** - hired prior to 7-01-97 & not electing GABA **9.05%** - hired after 6-30-97 & members electing GABA [19-6-402, MCA]	**26.15%** [19-6-404(1), MCA] **10.18%** of salaries – paid from drivers' license fees [19-6-404(2), MCA]	
SRS*	**9.245%** [19-7-403, MCA]	**9.535%** [19-7-404, MCA]	
GWPORS	**10.56%** [19-8-502, MCA]	**9.0%** [19-8-504, MCA]	
MPORS	**5.8%** - hired on or before 6-30-75 & not electing GABA [19-9-710(a), MCA] **7.0%** - hired after 6-30-75 & prior to 7-1-79 & not electing GABA [19-9-710(b), MCA] **8.5%** - hired after 6-30-79 and prior to 7-1-97 & not electing GABA [19-9-710(c), MCA] **9.0%** - hired after 6-30-97 & members electing GABA [19-9-710(d), MCA & 19-9-710 (2), MCA]	**14.41%** [19-9-703, MCA]	**29.37%** of salaries – paid from the General Fund [19-9-702, MCA]
FURS	**9.5%** - hired prior to 7-1-97 & not electing GABA [19-13-601(2)(a), MCA] **10.7%** - hired after 06-30-97 & members electing GABA [19-13-601(2)(b), MCA]	**14.36%** [19-13-605, MCA]	**32.61%** of salaries – paid from the General Fund [19-13-604, MCA]
VFCA			**5.0%** of fire insurance premiums, paid from the General Fund [19-17-301, MCA]

*The employer contribution rate increases on July 1, 2007 for PERS-DBRP, PERS-DCRP and SRS.

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Public Employees' Retirement Board

A Component Unit of the State of Montana

Required Supplementary Information

Schedule of Funding Progress

(in thousands)

System	Actuarial Valuation Date	Actuarial Value of Assets [1] (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
PERS-DBRP	06/30/02	$ 3,076,781	$ 3,077,764	$ 983	99.97%	$ 808,747	0.12%
	06/30/04	3,047,287	3,514,085	466,798	86.72	832,847	56.05
	06/30/05	3,179,010	3,719,998	540,988	85.46	847,431	63.84
	06/30/06	3,459,084	3,919,313	460,229	88.26	880,708	52.26
	06/30/07	**3,825,234**	**4,201,251**	**376,017**	**91.05**	**907,424**	**41.44**
JRS	06/30/02	44,963	30,882	(14,081)	145.60	4,000	-352.03
	06/30/04	45,134	34,724	(10,410)	129.98	4,403	-236.43
	06/30/05	47,552	34,525	(13,027)	137.73	4,462	-291.95
	06/30/06	51,808	37,159	(14,649)	139.42	4,762	-307.62
	06/30/07	**57,778**	**36,863**	**(20,915)**	**156.74**	**4,841**	**-432.04**
HPORS	06/30/02	81,734	94,850	13,116	86.17	7,536	174.04
	06/30/04	79,104	104,069	24,965	76.01	7,844	318.27
	06/30/05	82,050	112,938	30,888	72.65	9,104	339.28
	06/30/06	87,189	112,002	24,813	77.85	7,878	314.97
	06/30/07	**95,758**	**128,306**	**32,548**	**74.63**	**9,858**	**330.17**
SRS	06/30/02	138,590	121,625	(16,965)	113.95	24,521	-69.19
	06/30/04	141,022	148,608	7,586	94.90	27,373	27.71
	06/30/05	148,458	159,347	10,889	93.17	28,423	38.31
	06/30/06	163,003	171,841	8,838	94.86	34,242	25.81
	06/30/07	**183,894**	**189,036**	**5,142**	**97.28**	**43,611**	**11.79**

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage percentage, the stronger the plan. Trends in the unfunded actuarial accrued liability and annual covered covered payroll approximately adjusts for the effects of inflation and aids analysis of the plan's progress stronger the plan.

[1] Refer to the "Notes to the Required Supplementary Information" for the Actuarial Asset Valuation Method (Page 84).

System	Actuarial Valuation Date	Actuarial Value of Assets [1] (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
GWPORS	06/30/02	$ 38,730	$ 39,109	$ 379	99.03%	$ 17,151	2.21%
	06/30/04	45,210	50,310	5,100	89.86	21,442	23.79
	06/30/05	50,961	56,414	5,453	90.33	22,496	24.24
	06/30/06	58,813	64,183	5,370	91.63	25,846	20.78
	06/30/07	**68,755**	**72,992**	**4,237**	**94.20**	**28,799**	**14.71**
MPORS	06/30/02	143,516	226,827	83,311	63.27	22,229	374.79
	06/30/04	149,510	260,094	110,584	57.48	24,531	450.79
	06/30/05	159,417	276,379	116,962	57.68	26,198	446.45
	06/30/06	175,919	291,099	115,180	60.43	27,644	416.65
	06/30/07	**198,310**	**310,423**	**112,113**	**63.88**	**29,547**	**379.44**
FURS	06/30/02	136,392	197,946	61,554	68.90	17,953	342.86
	06/30/04	142,109	227,599	85,490	62.44	20,248	422.21
	06/30/05	151,393	238,157	86,764	63.57	20,474	423.78
	06/30/06	167,343	255,513	88,170	65.49	22,917	384.74
	06/30/07	**188,545**	**269,399**	**80,854**	**69.99**	**24,250**	**333.42**
VFCA	06/30/02	19,254	26,808	7,554	71.82	N/A	N/A
	06/30/04	20,058	28,680	8,622	69.94	N/A	N/A
	06/30/05	21,311	30,773	9,462	69.25	N/A	N/A
	06/30/06	23,238	31,883	8,645	72.89	N/A	N/A
	06/30/07	**25,862**	**31,599**	**5,737**	**81.84**	**N/A**	**N/A**

Covered payroll is not applicable to VFCA because members are unpaid volunteers.

liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability over time indicates whether the plan is becoming financially stronger or weaker. Generally, the greater this payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the

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Required Supplementary Information

Schedule of Employer Contributions & Other Contributing Entities

System	Year Ended June 30	Annual Required Contributions	Actuarial Required Contribution Rate[1]	Percentage Contributed	Annual Required State Contribution [2]	Percentage Contributed
PERS-DBRP	2002	$ 55,803,545	6.90%	99.54%	$ 373,721	100.00%
	2003	58,573,696	6.90	98.16	388,954	100.00
	2004	67,044,215	8.05	86.20	402,566	100.00
	2005	71,523,156	8.44	82.06	420,658	100.00
	2006	69,311,689	7.87	91.54	442,994	100.00
	2007	**60,252,960**	**6.64**	**110.41**	**445,798**	**100.00**
JRS	2002	801,137	20.03	128.86		
	2003	816,691	20.03	128.86		
	2004	304,277	6.91	373.52		
	2005	143,222	3.21	811.43		
	2006	112,854	2.37	1089.03		
	2007	**(230,425)**	**- 4.76**	**-542.23**		
HPORS	2002	2,737,999	36.33	101.16	308,973	100.00
	2003	2,836,992	36.33	101.02	353,589	100.00
	2004	2,849,545	36.33	100.32	348,137	100.00
	2005	3,307,439	36.33	100.50	668,748	100.00
	2006	2,862,188	36.33	101.50	277,178	100.00
	2007	**3,581,499**	**36.33**	**101.48**	**284,631**	**100.00**
SRS	2002	2,338,104	9.54	102.10		
	2003	2,435,269	9.54	102.70		
	2004	3,198,485	11.69	84.57		
	2005	3,474,750	12.23	80.95		
	2006	3,896,731	11.38	90.42		
	2007	**4,175,763**	**9.58**	**105.04**		

Refer to the "Notes to the Required Supplementary Information" (Page 84).

This schedule was revised in FY2005 to reflect the actuarially calculated ARC rather than the statutory rate that was previously used.

[1] The Annual Required Contribution for FY03 is based on prior year-end actuarial study.

[2] The Annual Required Contribution for HPORS includes the required registration fees; and for MPORS and FURS is based on covered payroll, which includes payroll adjustments.

System	Year Ended June 30	Annual Required Contributions	Actuarial Required Contribution Rate[1]	Percentage Contributed	Annual Required State Contribution [2]	Percentage Contributed
GWPORS	2002	$ 1,759,644	10.26%	90.64%		
	2003	2,055,590	10.26	89.28		
	2004	1,979,117	9.23	102.12		
	2005	2,083,154	9.26	98.58		
	2006	2,336,515	9.04	102.34		
	2007	**2,217,558**	**7.70**	**118.94**		
MPORS	2002	3,203,173	14.41	102.15	$ 6,528,604	100.02%
	2003	3,355,991	14.41	104.89	6,840,073	99.39
	2004	3,534,920	14.41	102.68	7,204,760	100.05
	2005	3,775,191	14.41	100.41	7,694,474	100.14
	2006	3,983,471	14.41	101.30	8,118,982	100.77
	2007	**4,258,134**	**14.41**	**100.58**	**8,678,793**	**100.00**
FURS	2002	2,578,021	14.36	97.80	5,854,406	98.46
	2003	2,672,133	14.36	106.04	6,068,123	98.98
	2004	2,876,584	14.36	100.09	6,532,410	100.00
	2005	2,940,092	14.36	100.65	6,676,629	100.63
	2006	3,290,840	14.36	101.14	7,473,141	100.80
	2007	**3,482,288**	**14.36**	**101.09**	**7,907,898**	**100.63**
VFCA	2002				1,133,741	100.00
	2003				1,310,088	100.00
	2004				1,434,068	100.00
	2005				1,527,264	100.00
	2006				1,610,462	100.00
	2007				**1,660,695**	**100.00**

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Notes to the Required Supplementary Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of latest actuarial valuation follows:

	PERS-DBRP	JRS	HPORS
Valuation date	June 30, 2007	June 30, 2007	June 30, 2007
Actuarial cost method	Entry Age	Entry Age	Entry Age
Amortization method	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open
Remaining amortization period in years:			
Unfunded Liability	21.9		19.1
Unfunded Credit [1]		30	
Asset valuation method	4-Year smoothed market	4-Year smoothed market	4-Year smoothed market
Actuarial assumptions:			
Investment rate of return compounded annually	8%	8%	8%
Projected salary increases			
General Wage Growth*	4.25%	4.25%	4.25%
Merit	0% - 6%	None	0% - 7.3%
* includes inflation rate at	3.25%	3.25%	3.25%
Benefit Adjustments			
GABA[2]	3% after 1 yr	3% after 1 yr	3% after 1 yr
Non-GABA	N/A	Biennial increase to salary of active member in like position	2% per yr service for newly confirmed officer

[1] Assets are larger than the past service liability – creating an unfunded credit; the credit is amortized over future costs and the amortization period may not exceed 30 years.

[2] GABA reduction for new hires of PERS, SRS, GWPORS effective July 1, 2007.

SRS	GWPORS	MPORS	FURS	VFCA
June 30, 2007	June 30, 2007	June 30, 2007	June 30, 2007	June 30, 2007
Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of revenue, open
19.6	11.3	20.5	12.9	5.1
4-Year smoothed market	4-Year smoothed market	4-Year smoothed market	4-Year smoothed market	4-Year smoothed market
8%	8%	8%	8%	8%
4.25%	4.25%	4.25%	4.25%	N/A
0% - 7.3%	0% - 7.3%	0% - 7.3%	0% - 7.3%	N/A
3.25%	3.25%	3.25%	3.25%	3.25%
3% after 1 yr	3% after 1 yr	3% after 1 yr	3% after 1 yr	N/A
N/A	N/A	50% newly confirmed officer	50% newly confirmed officer	N/A

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Public Employees' Retirement Board

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Schedule of Administrative Expenses

Year Ended June 30, 2007

	Defined Benefit Plans	PERS-DBRP Education Fund	Defined Contribution PERS-DCRP	Deferred Compensation 457 Plan
Personal Services				
Salaries	$ 1,116,370	$ 92,895	$ 92,343	$ 85,234
Board Members' Per Diem	8,329		327	327
Employee Benefits	347,626	30,785	28,513	25,658
Total Personal Services	1,472,325	123,680	121,183	111,219
Other Services				
Consulting Services	349,355	16	27,332	26,237
Legal Fees and Court Costs	88,490		59	59
Payroll Fees	985	77	62	58
Audit Fees	29,136		930	930
Medical Services	8,304			
Records Storage	7,068	21		
Pre-Retirement Seminars		2,500		
Computer Processing	300,036	2,578	10,857	6,455
Printing and Photocopy Charges	21,688	38,920	1,263	2,077
Warrant Writing Services	35,509		1,133	1,133
Other	8,755	685	554	517
Total Other Services	849,326	44,797	42,190	37,466
Communications				
Recruitment Costs	10,354	63	310	165
Postage and Mailing	78,049	33,501	1,045	2,345
Telephone	23,142	2,592	1,484	1,364
Total Communications	111,545	36,156	2,839	3,874
Other Expenses				
Supplies and Materials	50,025	2,128	2,574	2,282
Travel	35,947	9,515	2,818	2,767
Rent	193,980	17,581	12,462	11,455
Repairs and Maintenance	589	36	32	29
Depreciation/Amortization	37,193	137	733	49,080
Compensated Absences	(12,261)	887	4,057	3,345
Interest Payments			55,892	
Miscellaneous	45,265	(1,245)	8,429	3,206
Total Other Expenses	350,738	29,039	86,997	72,164
Total Administrative Expenses	**$ 2,783,934**	**$ 233,672**	**$ 253,209**	**$ 224,723**

Public Employees' Retirement Board

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Schedule of Investment Expenses

Year Ended June 30, 2007

Plan	Investment Manager	Fees
PERS-DBRP	Board of Investments	$ 10,055,948
JRS	Board of Investments	149,499
HPORS	Board of Investments	251,906
SRS	Board of Investments	468,711
GWPORS	Board of Investments	171,546
MPORS	Board of Investments	492,997
FURS	Board of Investments	468,371
VFCA	Board of Investments	65,189
457	PIMCO	448,668
	State Street Bank	52,467
Total Investment Expense		**$ 12,625,302**

Public Employees' Retirement Board

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Schedule of Consultants

Year Ended June 30, 2007

Individual or Firm	Nature of Service	Amount Paid
AMDEC Software	Computer Programming Services	$ 330,953
Milliman	Actuarial Consultant	179,433
Goetz, Gallik, Baldwin & Dolan	Legal Services	55,161
Ice Miller	Tax Consultant	31,643
Legislative Audit Division, Legislative Branch	Independent Auditors	30,995
Arnerich Massena & Associates, Inc.	Mutual Funds Performance Review	27,500
Lawrence R. McEvoy, MD	Medical Consultant	6,066
Legal Services Division, Department of Justice	Legal Services	3,060
Professional Development Center, Department of Administration	Retirement Planning Seminars	2,500

Public Employees' Retirement Board

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Detail of Fiduciary Net Assets (PERS-DBRP and PERS-DBEd)

as of June 30, 2007

	PERS-DBRP	PERS-DBEd	TOTAL
Assets			
Cash and Short-term Investments	$ 110,918,521	$ 1,423,958	$ 112,342,479
Securities Lending Collateral	202,100,050		202,100,050
Receivables			
Interest	7,987,679	6,193	7,993,872
Accounts Receivable	1,164,152	14	1,164,166
Due from Other Funds	328,966	4,983	333,949
Due from Primary Government	150,538		150,538
Notes Receivable	85,246		85,246
Total Receivables	9,716,581	11,190	9,727,771
Investments, at fair value			
Montana Domestic Equity Pool (MDEP)	1,735,718,440		1,735,718,440
Retirement Fund Bond Pool (RFBP)	987,821,047		987,821,047
Montana International Pool (MTIP)	818,362,199		818,362,199
Montana Private Equity Pool (MPEP)	315,058,722		315,058,722
Montana Real Estate Pool (MTRP)	79,459,123		79,459,123
Real Estate Investments	8,816,422		8,816,422
Mortgages & Commercial Loans			
net of Accumulated Mortgage Discount	36,860,707		36,860,707
Total Investments	3,982,096,660		3,982,096,660
Capital Assets			
Property and Equipment, at cost,			
net of Accumulated Depreciation	513		513
Intangible Assets, at cost,			
net of Amortization Expense	212,275	296	212,571
Total Capital Assets	212,788	296	213,084
Total Assets	4,305,044,600	1,435,444	4,306,480,044
Liabilities			
Securities Lending Collateral Liability	202,100,050		202,100,050
Accounts Payable	388,271	9,408	397,679
Due to Other Funds	162,438	496	162,934
Due to Primary Government	46,230	31,834	78,064
Deferred Revenue	67,759		67,759
Compensated Absences	220,030	16,468	236,498
Total Liabilities	202,984,778	58,206	203,042,984
Net Assets Held in Trust for Pension Benefits	**$ 4,102,059,822**	**$ 1,377,238**	**$ 4,103,437,060**

Public Employees' Retirement Board

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Detail of Changes in Fiduciary Net Assets (PERS-DBRP and PERS-DBEd)

for the Fiscal Year Ended June 30, 2007

	PERS-DBRP	PERS-DBEd	TOTAL
Additions			
Contributions			
Employer	$ 66,527,474	$ 374,272	$ 66,901,746
Plan Member	69,054,206		69,054,206
Membership Fees	52		52
Interest Reserve Buyback	95,694		95,694
Retirement Incentive Program	291,985		291,985
Miscellaneous Revenue	1,413	123	1,536
State Contributions	445,798		445,798
Total Contributions	136,416,622	374,395	136,791,017
Investment Income			
Net Appreciation (Depreciation) in Fair Value of Investments	457,602,129		457,602,129
Interest	167,785,791	68,971	167,854,762
Dividends	13,760,866		13,760,866
Investment Expense	(10,055,948)		(10,055,948)
Net Investment Income	629,092,838	68,971	629,161,809
Securities Lending Income			
Securities Lending Income	7,545,025	82	7,545,107
Securities Lending Rebate and Fees	(7,148,122)	(82)	(7,148,204)
Net Securities Lending Income	396,903	0	396,903
Total Net Investment Income	629,489,741	68,971	629,558,712
Total Additions	765,906,363	443,366	766,349,729
Deductions			
Benefits	166,187,966		166,187,966
Refunds/Distributions	12,867,508		12,867,508
Refunds to Other Plans	688,128		688,128
Transfers to DCRP	1,209,017		1,209,017
Transfers to ORP	211,020		211,020
Administrative Expenses	2,447,501	233,672	2,681,173
Total Deductions	183,611,140	233,672	183,844,812
Net Increase (Decrease)	582,295,223	209,694	582,504,917
Net Assets Held in Trust for Pension Benefits			
Beginning of Year	**3,519,815,132**	**1,167,544**	**3,520,982,676**
Prior Period Adjusment	**(50,533)**		**(50,533)**
End of Year	**$ 4,102,059,822**	**$ 1,377,238**	**$ 4,103,437,060**

Public Employees' Retirement Board

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Detail of Fiduciary Net Assets (PERS-DCRP, PERS-DCEd and PERS-DC Disability)
as of June 30, 2007

	PERS-DCRP	PERS-DCEd	PERS-DC DISABILITY	TOTAL
Assets				
Cash and Short-term Investments	$ 704,961	$ 87,255	$ 662,184	$ 1,454,400
Receivables				
Interest	2,781	376	2,873	6,030
Accounts Receivables	12			12
Due from Other Funds	132,364	496	3,556	136,416
Total Receivables	135,157	872	6,429	142,458
Investments, at fair value				
Defined Contributions Fixed Investments	1,804,789			1,804,789
Defined Contributions Variable Investments	38,615,150			38,615,150
Total Investments	40,419,939			40,419,939
Intangible Assets, at cost,				
net of Amortization Expense	3,022			3,022
Total Assets	41,263,079	88,127	668,613	42,019,819
Liabilities				
Accounts Payable	7,966	379		8,345
Due to Other Funds	1,861	5,152		7,013
Due to Primary Government	1,609	6		1,615
Compensated Absences	13,606	795		14,401
Total Liabilities	25,042	6,332		31,374
Net Assets Held in Trust for Pension Benefits	**$ 41,238,037**	**$ 81,795**	**$ 668,613**	**$ 41,988,445**

Public Employees' Retirement Board

A Component Unit of the State of Montana

Detail of Changes in Fiduciary Net Assets (PERS-DCRP, PERS-DCEd and PERS-DC Disability)
for the Fiscal Year Ended June 30, 2007

	PERS-DCRP	PERS-DCEd	PERS-DC DISABILITY	TOTAL
Additions				
Contributions				
Employer	$ 2,640,661	$ 31,127	$ 185,180	$ 2,856,968
Plan Member	4,394,129			4,394,129
Miscellaneous Revenue	1,578,109			1,578,109
Forfeiture of Nonvested Member	315,084			315,084
Total Contributions	8,927,983	31,127	185,180	9,144,290
Investment Income				
Net Appreciation (Depreciation)				
in Fair Value of Investments	3,828,040			3,828,040
Interest	1,553,412	3,799	29,374	1,586,585
Net Investment Income	5,381,452	3,799	29,374	5,414,625
Securities Lending Income				
Securities Lending Income	34	4	35	73
Securities Lending Rebate and Fees	(34)	(4)	(35)	(73)
Net Securities Lending Income	0	0	0	0
Total Net Investment Income	5,381,452	3,799	29,374	5,414,625
Total Additions	14,309,435	34,926	214,554	14,558,915
Deductions				
Distributions	2,631,609			2,631,609
Administrative Expenses	244,270	8,939		253,209
Miscellaneous Expenses	282,453			282,453
Total Deductions	3,158,332	8,939		3,167,271
Net Increase (Decrease)	11,151,103	25,987	214,554	11,391,644
Net Assets Held in Trust for Pension Benefits				
Beginning of Year	**30,110,401**	**55,808**	**454,059**	**30,620,268**
Prior Period Adjustment	(23,467)			(23,467)
End of Year	**$ 41,238,037**	**$ 81,795**	**$ 668,613**	**$ 41,988,445**